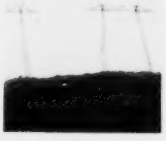
Building Opportunities



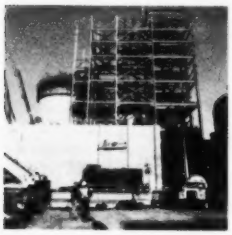
A SOLID FOUNDATION

This was our most challenging year in memory. We were confronted by considerable financial and operational issues. Many in the energy sector faced similar challenges. Did we fare as well as we would have liked? Certainly not. We recorded a loss of $77 million following a period of improving performance. This was obviously disappointing. However, as you review our annual report, you will notice that our outlook is positive.

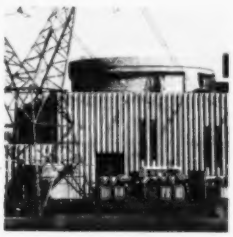
Our diversified generation, interconnected transmission and a robust distribution system – all supported by experienced hard-working people – forms a solid foundation. Our development projects will complement our strengths while building new opportunities for our company and our people.

Take a few minutes to explore where we are going.

BUILDING OPPORTUNITIES



Coleson Cove
The Coleson Cove refurbishment project means our largest station will generate more economic electricity along with improved environmental performance.



Point Lepreau
The proposed refurbishment of Point Lepreau will maintain reliable, environmentally beneficial generation.

International Power Line
The planned international power line will allow additional access to the regional market as well as development of a competitive market.

Alternative Energy
The potential addition of wind turbines to New Brunswick's generation mix will continue the trend for improved environmental performance.

104-00352/

OPERATIONAL HIGHLIGHTS

Generation

The major generating units met their availability and reliability targets through a year that had four all-time records for customer demand. The operations, maintenance and administration costs were on-budget. Important safety milestones were reached at nearly every generating station.

Nuclear

Point Lepreau Generating Station completed 20 years of service and generated its 100 millionth megawatt hour of electricity. The capacity factor deviated only slightly from its planned 74% despite a longer maintenance outage. The Canadian Nuclear Safety Commission awarded a 38-month licence renewal. During the year, employees worked more than 2,000,000 person hours without a lost-time accident.

Transmission

Transmission enhanced reliability to the Acadian Peninsula with a new terminal in Tracadie linked by a new 138 kV line. Reliability upgrades were completed or started in Oak Bay, Dieppe, Memramcook, and Saint John. The achievement of 1,000,000 person hours without a lost-time accident was significant.

Customer Service

Reliability remained strong despite being tested by one of the most severe ice storms in recent years. Storm recovery work balanced speed and safety which resulted in the timely restoration of service to 65,000 customers with no lost-time accidents. A public safety program significantly reduced customer contacts with wires and facilities.

FINANCIAL HIGHLIGHTS

Financial Performance

in millions

	2002-03	2001-02	2000-01
Net income (loss)	**$ (77)**	$ 19	$ (80)
Operating cash flow	**$ 133**	$ 234	$ 214
Free cash inflow (outflow)	**$ (86)**	$ 64	$ 114
Reduction (increase) in net debt	**$ (104)**	$ 41	$ 23

An accounting policy change related to foreign exchange translation of US debt was implemented effective April 1, 2001. Before this change, net income for the year ended March 31, 2002 was $3 million and the net loss for the year ended March 31, 2001 was $14 million.

Financial Ratios and Percentages

	2002-03	2001-02	2000-01
Operating margin	**13%**	21%	21%
Operating cash flow/ capital expenditures	**.61x**	1.67x	1.81x
Debt/capital	**106%**	103%	104%
Interest coverage	**.66x**	1.08x	.68x

Table of Contents

Message from the Chair 1

Message from the President and CEO 2

Senior Management 4

Corporate Profile 5

Review of Activities:

Business Development 6
Social Responsibility 8
Environmental Protection 10
Generation 12
Nuclear 14
Transmission 16
Customer Service 18
Corporate Services 20

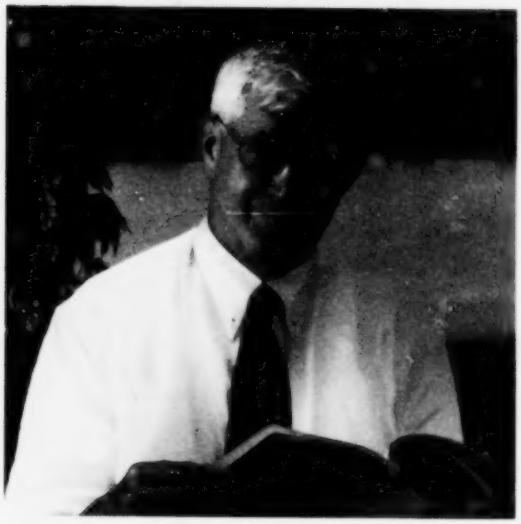
Financial Review 2001-2002:

Management's Discussion and Analysis 24
Management Report and Auditors' Report 36
Consolidated Financial Statements 37
Notes to the Consolidated Financial Statements 41
Statistical Overview 51

Corporate Governance 55

System Map 58

A SOLID FOUNDATION



Across the region and throughout North America, energy sector companies, both large and small, faced challenges at every turn. At NB Power, a significant decline in margins on export sales led to a net loss of $77 million for 2002-2003.

As a business, it was more expensive to generate electricity and thus profits from export sales, which are vitally important to our financial performance, were considerably lower. Our controllable costs were contained through restraint measures and employees responded well to many operational challenges. As a Crown Corporation, we continued to generate economic, reliable energy. Our stable rates are among the lowest in this region and a required rate increase was in line with inflation.

From this solid foundation, we made progress in 2002-2003 on development projects that will mitigate the impact of external cost pressures. The Coleson Cove refurbishment will lower fuel costs, the proposed Point Lepreau refurbishment will generate low-cost power with environmental benefits, and a planned new transmission line to the United States will increase regional market access. This strategic development plan will benefit all of our stakeholders and energy consumers in the region.

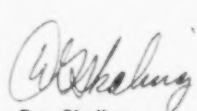
CORPORATE GOVERNANCE

The Board of Directors is responsible for ensuring that numerous programs related to strategic planning, enterprise risk management, financial reporting and management succession are well managed. With considerable changes required by the restructuring of both the electricity market in New Brunswick and the Corporation's structure, the governance process at NB Power was very active. In their areas of responsibility, members of the Board, at regular meetings and through the work of various committees, responded diligently and professionally.

- **Financial Restructuring Committee** – directed the planning process on the holding and operating company structures and related governance, management/staffing and financial issues
- **Audit Committee** – reviewed and approved financial statements, monitored enterprise risk management process, reviewed accounting changes and conducted amortization reviews
- **Human Resource and Corporate Governance Committee** – ensured due diligence on health and safety issues and oversaw work on succession, pensions/benefits and performance assessments
- **Environment Committee** – monitored environment management system implementation, compliance audits, facility re-licensing and environmental aspects of the development projects

Considerable attention was devoted to governance matters arising from corporate restructuring. The Financial Restructuring Committee provided direction on corporate structure development, evolving legislation and investment solicitation. As well, the Audit Committee focused on the financial aspects of restructuring.

Each day more than 360,000 industrial, business, residential and export customers depend on NB Power to meet their requirements for reliable, economic and environmentally-beneficial energy. During a very difficult business cycle, the NB Power team – employees, management, Board of Directors – was focused on operational efficiency and development projects that will build opportunities for NB Power, the Province and our customers.



Dan Skaling
Chair – Board of Directors

BUILDING OPPORTUNITIES

This fiscal year was our most challenging in recent memory. Like many North American electric utilities, we were confronted by considerable operational and financial issues. Most significantly, a decline of $82 million in margins on export sales contributed to NB Power's net loss of $77 million for 2002-2003 compared to a net income of $19 million in 2001-2002.

Margins on export sales were lower due to higher energy costs from oil and natural gas price increases, compounded by reduced availability of low-cost nuclear and Orimulsion® energy supplies. Export markets are key to NB Power's financial performance and profits from these sales are used to keep in-province rates as low as possible. At the same time, controllable costs were contained and we made progress on key development projects that in the future will help to mitigate the impact of these external cost pressures.

For many reasons our outlook is positive. NB Power's diversified generation, interconnected transmission and robust distribution system are the foundation for the future. Development projects will improve our competitiveness and increase access to export markets.

Through this difficult year, employees worked to minimize the impact of many operational and financial challenges. Their accomplishments are noteworthy:

- controllable costs were contained even after additional unexpected cost pressures arose
- regulatory approvals were secured for a transmission tariff and a new international transmission line
- environmental approval was secured for the Coleson Cove refurbishment project
- Generation availability improved as demand reached record levels
- Transmission continued to upgrade facilities to improve reliability
- Customer Service responded very well to a severe ice storm affecting up to 65,000 customers

Our Corporation and employees were tested many times and responded well.

MARKET AND CORPORATE RESTRUCTURING

The Province of New Brunswick is implementing a managed transition of the electricity market from the current monopoly structure to a competitive environment for wholesale and large industrial sectors. The *Electricity Act* was introduced to the Legislative Assembly in January 2003 to restructure both the electricity market and NB Power. The *Act* received royal assent in April 2003 and is expected to be proclaimed later in the year.

Consistent with the changes to the electricity market, NB Power is evolving from a single corporation to a holding company with four operating companies. The holding company will facilitate interaction with the Provincial Government and provide services to the new operating companies. These new operating companies will be expected to operate on a commercial basis earning return on equity targets, borrow without a provincial guarantee (excluding the Nuclear Corporation), and make payments through cash flows in lieu of taxes and dividends.

NB Power's implementation of restructuring initiatives has progressed well, another area where employees responded to a significant challenge. Financial and business information system upgrades were completed and will allow business units to report as separate companies. Development of contracts between the operating companies is continuing as is development of a shared services organization within the holding company. The closing strategy for completing restructuring, including corporate structure changes, will await an implementation date set by the Provincial Government.

Related to the market opening, NB Power received approval from the Public Utilities Board to implement an open access transmission tariff to provide non-discriminatory access to market participants inside and outside the province. The tariff will allow NB Power Transmission Corporation to collect revenues to operate the transmission system and has been designed to be consistent with regulatory requirements in the United States.

Development Projects

NB Power's development plan will ensure the availability of reliable power, meet evolving environmental standards and maintain stable and competitive power rates that foster economic growth. Substantial progress was made on the regulatory and environmental approvals in 2002-2003:

- **Coleson Cove** – Conversion of the 1000 MW oil-fired station to burn low-cost Orimulsion® and upgrade environmental equipment is underway. The project received environmental approval and construction is scheduled to be completed by November 2004. Following a search for an equity partner, the Provincial Government decided to retain ownership of the station at this time and proceed with refurbishment.

- **Point Lepreau** – NB Power is proposing to refurbish the 635 MW station during an 18-month outage beginning in 2007 or 2008. The Public Utilities Board had recommended to the Board of Directors that the project not proceed because there was no significant financial advantage over natural gas, a potential generation replacement. Other factors will be important in a decision on the project, particularly environmental benefits and natural gas pricing and supply uncertainty. The Province of New Brunswick intends to seek external investment for this project.

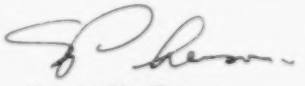
- **International Power Line** – A second transmission line and interconnection with Maine would increase import and export opportunities, improve system reliability and enhance transmission efficiency. NB Power applied to the National Energy Board to construct and operate the line. Following a positive review by federal environmental authorities and a public hearing, the National Energy Board gave approval for the project to proceed. Current work is focusing on designing the associated tariff and securing environmental and regulatory permitting in the United States.

Operating Performance

Generation continued to produce reliable electricity as year-over-year station availability improved. This was crucial as New Brunswick experienced four all-time customer demand peaks – the record demand for electricity was satisfied by utilizing all in-province generation supplemented by imports. The Point Lepreau Generating Station completed 20 years of service and generated its 100 millionth megawatt hour of electricity. Its capacity factor deviated only slightly from its planned 74% despite a longer than scheduled maintenance outage. During the year, the Canadian Nuclear Safety Commission awarded the station a 38-month licence renewal.

Transmission greatly enhanced reliability in the Acadian Peninsula with a new terminal in Tracadie linked by a new transmission line. Important upgrades were completed or started in Oak Bay, Dieppe, Memramcook, and Saint John. Reliability performance in Customer Service remained strong despite summer lightning storms and a winter ice storm. The damage caused by freezing rain on Groundhog Day was the most severe in many years as crews safely responded to outages affecting up to 65,000 customers. Contractors, line workers and vegetation crews from Saint John Energy, Nova Scotia Power, Maritime Electric and Maine assisted NB Power crews during a multi-day restoration.

Safety milestones were reached in every part of our operations. As measured by the Canadian Electricity Association, NB Power recorded the lowest injury/illness frequency rate and severity rate among members with more than 500 employees, a rate which we have improved each of the past three years. This strong safety orientation extended to customers. Following an extensive safety campaign, there was a dramatic decline in public contacts with power lines and facilities.



Stewart MacPherson
President and CEO (Acting)

SENIOR MANAGEMENT

Stewart MacPherson – President and CEO (Acting)

Mr. MacPherson brings a wealth of operational and strategic planning experience to the leadership of the Corporation. Prior to being named President and CEO in 2002, he held senior management and executive positions, most recently as Vice President, Corporate Planning, where he addressed issues related to electricity deregulation, environmental regulations and business development. His background also includes leadership positions in Customer Service and Business Information Systems.

Rod White
Vice President, Nuclear
With experience in Generation at NB Power, Mr. White has been Vice President since 1997. He is responsible for the Point Lepreau Generating Station and the refurbishment project. He was a General Manager in Generation and Station Manager at Coleson Cove and Belledune.

Jim Brogan
Vice President, Generation (Conventional)
After holding positions of Station Manager, Regional Manager and General Manager, Mr. Brogan was appointed Vice President in 2001. He is responsible for the operation of generation facilities for in-province customers and export markets and the refurbishment of Coleson Cove.

Wayne Snowdon
General Manager, Transmission (Acting)
Mr. Snowdon was appointed General Manager in 2002. As Director, Energy Control Centre, he directed transmission operations and led the transition to open transmission access. He has worked closely with electric utility reliability and co-ordinating councils in North America.

Bob Crawford
General Manager, Customer Service
Mr. Crawford has experience in Generation, Nuclear and Customer Service. He has been a Station Manager in Generation and led performance improvement at Point Lepreau. Since 2000, he has been responsible for customer service delivery, distribution system operation and rate design.

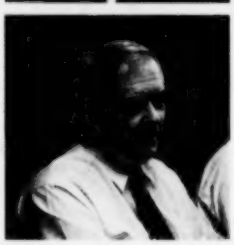
Ken Little
Vice President, Regulatory Affairs
Mr. Little joined NB Power in 1977 and he has held executive positions in Finance, Treasury and Customer Service and Marketing. Since 2000, he has been responsible for regulatory hearings and restructuring.

Sharon MacFarlane
Vice President, Finance and Information Systems
Responsible for corporate financial and technology programs to support operations, Ms. MacFarlane oversees Treasury, Finance and Information Systems. A chartered accountant, she was previously Vice President, Finance and Administration at Mount Allison University before joining NB Power in 1998.

Paul Thériault
Vice President, Human Resources and Administration
Mr. Thériault joined NB Power in 1992 from the Provincial Government. He is responsible for human resources management, particularly integrating recruitment, compensation, performance, wellness, labour relations, and safety programs with business objectives.

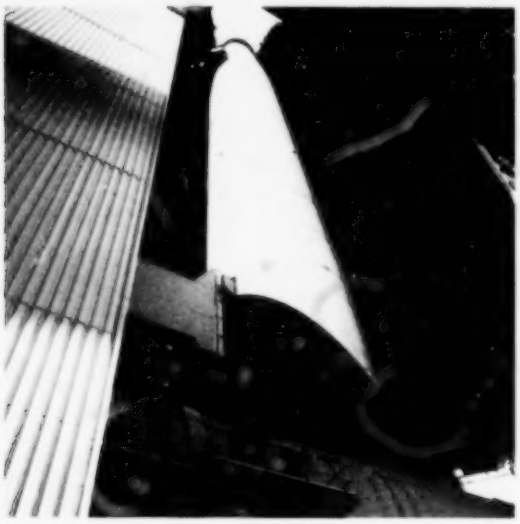
Andrew Cormier
Vice President, Performance Improvement and President, NB Coal
Following mine management experience with private sector companies, Mr. Cormier joined NB Coal. He was appointed General Manager and President in 1982. In 1997, he was given corporate responsibilities for telecommunications, materials and environment.

Wanda Harrison
Corporate Secretary and General Counsel
Ms. Harrison is responsible for legal counsel to the Board of Directors and senior management and managing legal services. She joined NB Power in 1989 from private practice and has served as Senior Solicitor and Associate Corporate Secretary and General Counsel.



Bob Scott
Director, Public Affairs
Mr. Scott joined NB Power in 2002 after holding senior communications positions in the Provincial Government and Crown Corporations. He has served as Senior Policy Advisor to the Premier of New Brunswick and acting Communications Director.

CORPORATE PROFILE



NB Power operates one of North America's most diverse generation and interconnected transmission systems. Economic generation from a variety of sources – oil, hydro, nuclear, coal and Orimulsion® – is reliably delivered to over 360,000 direct and indirect customers through a network of more than 33,000 kilometers of power lines and numerous substations and terminals.

Generation
Operating one of North America's most diverse generating systems, Generation produces economic electricity at its oil, hydro, coal, Orimulsion® and diesel powered stations. The network of conventional generating stations has an installed capacity of 3,134 MW comprised of thermal capacity of 1,923 MW, hydro capacity of 884 MW and combustion turbine capacity of 327 MW.

Nuclear
The CANDU 6 – 635 MW unit at Point Lepreau generates low-cost electricity, supplying approximately 30% of in-province energy. Generation from the station is important to the Corporation's economic and environmental performance because it is the lowest variable cost thermal generator on the system and displaces significant amounts of air emissions.

Transmission
Responsible for reliable and safe delivery of electricity to the distribution system and point-to-point transmission customers, Transmission operates and maintains 6,700 km of transmission lines and industrial substations, radio towers, switchyards and interconnections. The Energy Control Centre is the operational nerve centre including transmission system access via the on-line Open Access Same-Time Information System.

Customer Service
Serving residential, commercial, wholesale and industrial customers across the province, Customer Service safely and reliably delivers competitively-priced electricity by way of its 26,500 km of distribution lines. It provides valued customer products and services through its regional operations offices, customer contact centres, energy advisors and account managers.

Corporate Services
The Corporate Services group comprises Human Resources and Administration, Business Information Systems, Finance, Corporate Planning, Telecommunications, Environment, Legal, and Public Affairs. By providing strategic direction and support, these divisions enable the business units to better perform in the generation and delivery of low cost, reliable electricity.

BUSINESS DEVELOPMENT

NB Power's restructuring is preparing the Corporation to succeed in New Brunswick's new electricity market. The business development plan will ensure security of supply, reliability, rate stability and improved environmental performance – important priorities for the owner, the new market and customers.

ELECTRICITY DEREGULATION

In May 2002 the Province of New Brunswick announced it would implement a managed transition of the electricity market from the current monopoly structure to a competitive environment for wholesale and large industrial sectors. The *Electricity Act*, subsequently introduced to the Legislative Assembly in January 2003, provides the authority for restructuring the electricity market and the corporate restructuring of NB Power. The *Act* received royal assent in April 2003 and is expected to be proclaimed during 2003-2004.

Corporate Structure Changes

Consistent with the changes to the electricity market, NB Power is evolving from a single corporation to a holding company with four operating companies:

- New Brunswick Power Holding Corporation
- New Brunswick Power Nuclear Corporation
- New Brunswick Power Generation Corporation
- New Brunswick Power Transmission Corporation
- New Brunswick Power Distribution and Customer Service Corporation

The holding company will facilitate interaction with the shareholder, the Provincial Government, and provide services to the new operating companies. These new operating companies will be expected to manage revenues and costs, borrow without a provincial guarantee (excluding the Nuclear Corporation), achieve return on equity targets, make special payments in lieu of taxes and pay dividends.

Under provisions of the *Electricity Act*, two other organizations will be created. The New Brunswick System Operator will be an independent, not-for-profit Crown Corporation mandated to direct the operation of the transmission system. On the advice of a multi-stakeholder Market Advisory Committee, it will also establish and enforce market rules. Of particular note, the System Operator will ensure that the standard supplier to customers has sufficient capacity to meet customers' requirements in the New Brunswick electricity market.

Additionally, the establishment of the New Brunswick Electric Finance Corporation will facilitate conversion of NB Power's debt to appropriate capital structures in the operating companies through a debt-equity swap. This Corporation will also assume and reduce over time the remaining portion of NB Power's debt through cash flows from the new operating companies.

Electricity Market Changes

Once the new market begins, New Brunswick's electricity market customers will include:

- New Brunswick Power Distribution and Customer Service Corporation which will supply residential, business and industrial customers within the province
- existing wholesale municipal energy companies in Saint John, Edmundston and Perth Andover and large industrials at transmission voltages which choose not to receive service from New Brunswick Power Distribution and Customer Service Corporation
- eligible customers in other jurisdictions in Prince Edward Island, Northern Maine and Nova Scotia

These customers will have the opportunity to enter into agreements with their choice of suppliers including New Brunswick Power Generation Corporation and other electric utilities or independent power producers. For customers choosing not to enter the market, New Brunswick Power Distribution and Customer Service Corporation will provide cost-based service through long-term power purchase agreements with existing heritage generators.

In 2002-2003, NB Power received approval from the Public Utilities Board to implement an open access transmission tariff to provide non-discriminatory access to generators and consumers inside and outside the province. The tariff will be managed by the System Operator and provide revenue to allow New Brunswick Power Transmission Corporation to operate and maintain the transmission system. The tariff has been designed to be consistent with the Federal Energy Regulatory Commission requirements in the United States.

NB Power's Development Projects

The goals of NB Power's business development plan are to ensure the availability of reliable power, meet evolving environmental standards and maintain stable and competitive power rates that support economic growth. Investment analysis has identified projects that are key to attaining these goals. These projects are in various stages of regulatory and environmental assessment or construction.

Coleson Cove Generating Station Refurbishment

Conversion of the oil-fired Coleson Cove Generating Station to burn lower cost Orimulsion®, and upgrade environmental control equipment is underway. The project received environmental approval from the Provincial Department of Environment and Local Government and construction is scheduled for completion by November 2004. Following a search for equity partners during 2002-2003, the Provincial Government decided to retain ownership of the station at this time and continue the refurbishment project.

Point Lepreau Nuclear Generating Station Refurbishment

NB Power is proposing to refurbish the Point Lepreau Generating Station during an 18-month outage beginning April 2007 or 2008. In September 2002, the Public Utilities Board recommended to the Board of Directors that the project, as then presented, not proceed because there was no significant financial advantage over natural gas, a potential replacement source of generation. Recognizing that, the Board of Directors believes that other factors, outside the scope of the Public Utilities Board's review, will be important in a decision on the project. Of particular importance will be the environmental benefits from continued operation of the station and uncertainty in pricing and supply of natural gas.

To progress the refurbishment project, NB Power submitted an environmental assessment study report on the modifications to the solid radioactive waste management facility to the Canadian Nuclear Safety Commission (CNSC). In conjunction with other designated federal and provincial authorities, the CNSC drafted a screening report which was issued for public review in March 2003. A hearing on the environmental assessment is planned for June 2003. The decision from federal and provincial regulatory authorities on the environmental assessment is expected in mid 2003.

The Province of New Brunswick intends to seek external investment for this project.

Transmission

A second 345 kV transmission line and interconnection with Maine would increase opportunities to import and export power, improve overall system reliability and enhance transmission efficiency. Following a positive review by federal environmental authorities and a public hearing, the National Energy Board gave approval for the project to proceed. Current work is focused on designing the associated tariff and securing environmental and regulatory permitting in the United States.

Alternative Energy

NB Power has been exploring wind generation as part of possible alternative energy opportunities. In concert with the projects at Coleson Cove and Point Lepreau, renewable energy development will help meet emission stabilization and reduction targets. Development work has focused on assessing wind generation at several sites around the province, seeking financial assistance from the federal government, developing a green power option for customers, and developing project proposals to invite private sector participation.

SOCIAL RESPONSIBILITY

NB Power demonstrates its social responsibility in its commitment to the broader community of New Brunswick and its own employees. Community improvement, employee growth, and health, safety and wellness are practised values at NB Power.

Principles

- **Community** – NB Power and its employees are committed to enriching the community through corporate and individual activism and leadership.
- **People** – NB Power values its employees and is committed to providing them with a working environment that encourages career growth and a corporate culture where the importance of a balanced lifestyle is appreciated.
- **Well-being** – NB Power is committed to fostering the well-being of its people and the public, championing employee health, safety and wellness and promoting public safety.

Our Community

NB Power is a socially-responsible organization, committed to bettering the community. On a corporate level, NB Power is involved in long-term enrichment of the community through contributions to education sponsorships delivered primarily through the United Way. On an individual level, NB Power employees are involved in everything from coaching children's sports teams to raising funds for the homeless to regular payroll contributions for organizations of their choice.

During 2002-2003, NB Power was proud to be a major sponsor of the Canada Winter Games which saw Campbellton-Bathurst welcome more than 3,200 young athletes from Canada's 13 provinces and territories. As the Official Supplier of Energy to the Games, the Corporation contributed in-kind services, including poles/wires, electricity and reliability support. The "Success Takes a Lot of Energy" slogan applied not only to corporate sponsorship, but also to employee volunteers who donated their time to staff the Games and to the children of many employees who successfully competed in the Games.

NB Power is actively involved in promoting education in the province, especially academic activities that relate to our operations and contribute to the development of the province. The Corporation has sponsored university chairs in specialized research fields in engineering and business. It also assists secondary school graduates to further their education. In 2002-2003, for the sixth year, NB Power awarded 13 "Youth Leadership Scholarships" valued at $1,500 each. New Brunswick students also benefit from the scholarships offered by the 25 Year Club, an association of long-term employees. Similarly, the International Brotherhood of Electrical Workers Local 37, the union representing employees, awarded bursaries to a number of their members' sons and daughters enrolled in post-secondary education.

For younger children, NB Power provides information to teachers on safety and other electrical issues. NB Power employees visit classrooms to discuss safety issues and tours are available at various power plants. The Corporation also offers *Kids' Zone*, an award-winning website that entertains and informs. To assist in adult literacy efforts, NB Power is the presenting sponsor of the annual Peter Gzowski Invitational fund-raising golf tournament. NB Power is one of the thousands of businesses across Canada that support Junior Achievement through the encouragement of employee participation.

NB Power strives to involve the community in its business operations and decisions. Whatever the area of operations, information programs are the standard, dealing with construction of new substations and transmission lines to major projects like the refurbishments of the Coleson Cove and Point Lepreau generating stations. For example, public information activities for transmission and distribution projects in Dieppe, Memramcook, St. Stephen and Chipman have included meetings with community residents, property owners and elected representatives.

Our People

Employees are the energy behind our community activism. Numerous fund-raising events take place throughout the year. From the corporate-sponsored Snowarama and United Way fund drives, to the initiatives of local groups of employees, employee commitment is manifested in a range of activities.

Snowarama is an ongoing charitable event that supports the Easter Seal Society of New Brunswick and over the years employees have raised more than $100,000 to support the charity. This year, NB Power was recognized by the United Way in central New Brunswick as the Outstanding Employee Campaign for significantly increasing employee participation and increasing funds raised by more than 30%.

The bonds between employees are also strong. NB Power's 25 Year Club, an association of current and past employees each with 25 years of experience, will celebrate its 40th anniversary in May 2004. This year's inaugural High Line reunion attracted more than 150 present and retired employees who worked on building the transmission system and terminals, substations and interconnections in the 1970s forward. Groups of employees like these and many others in our 15 locations around the province are also active in the Annual Ski Day, Family Days or Adventure Days.

Our Well-Being

NB Power places an emphasis on wellness through a range of wellness services to help employees deal with work-life balance and other issues. These initiatives align with the Provincial Government's direction on wellness and they have been recognized as leading-edge programs in Atlantic Canada. The Corporation was awarded the Canadian Health Care Manager's "Who's Who in Healthcare Plan" Sponsor Award and was nominated for an Atlantic Canada Human Resources Association award for excellence. As well, the Corporation has been a pioneer in the province is providing such services as on-site day care. Meanwhile, employees fulfil career and learning aspirations through a variety of training options, following programs tailored to their requirements.

Safety is intrinsic to our work at NB Power and the Corporation has been recognized nationally for its safety performance. Partnering with International Brotherhood of Electrical Workers Local 37, there is an ongoing focus on thinking safely and on initiatives such as the Safety Recognition Program. As a result of the safety focus, NB Power employees have made major achievements. For example, early in 2002, Generation achieved a full year without a lost-time injury, Transmission reached 1,000,000 person hours of work with no lost time accidents in June 2002, and Point Lepreau recently achieved two years without a lost-time accident.

NB Power is equally focused on public safety, constantly striving to inform the general community how to be safe around electricity. Community efforts are multifaceted and include media advertising, bill inserts, pamphlets, training, signage, school programs, the *Kids' Zone* website and facility security. Through television, radio, newspapers and the web, the "Start Smart" and "Look out for the Lines" slogans are familiar to the public. The success of these community efforts to educate and inform about safety around electricity is demonstrated by the significant decline in number of public contacts with electricity.

ENVIRONMENTAL PROTECTION

NB Power is committed to protecting the environment while providing economic, reliable energy to New Brunswick. Our respect for the environment is fundamental, a commitment reflected in current operations and development plans.

Principles

- **Leadership** – a leading role in environmentally responsible technologies and methodologies
- **Standards** – complying with legislation and commitments
- **Audits** – regular audits and monitoring to assess compliance
- **Protection** – a framework of environmental objectives, targets and procedures
- **Partnership** – actions extending to contractors, consultants and suppliers

Environmental Protection Framework

Working to protect the environment, each generating station operates with approvals issued by the New Brunswick Department of Environment and Local Government under the *Clean Environment Act* and *Clean Air Act*. In addition to these *Acts*, Point Lepreau operates under approval from the Canadian Nuclear Safety Commission, the on-site federal regulator of nuclear facilities.

NB Power installed Canada's first and third generating station scrubbers at Belledune and Dalhousie which have significantly reduced sulphur dioxide emissions. Stations at Belledune, Dalhousie, Coleson Cove and Grand Lake are equipped with electrostatic precipitators to remove flue gas particulate. State-of-the-art treatment facilities maintain wastewater quality at major stations. Fish-handling facilities at Mactaquac, Beechwood, Tobique and Milltown assist movement of fish along rivers.

Various waste management, minimization and reuse programs have increased recycling and reduced landfill requirements. These programs, found in all of NB Power's operations, range from extracting vanadium from flyash for use in the steel industry to using recycled combustion by-products in concrete products to recycling programs for power line equipment.

Environmental protection efforts in both Transmission and Customer Service are focused on minimizing impacts related to the construction, operation and maintenance of power lines, rights-of-way, substations and terminals. Work is undertaken in compliance with the *Clean Environment Act* and *Clean Water Act*. The use of pesticides at substations and terminals is in accordance with the *Pesticide Control Act*.

NB Power has implemented environmental management systems in each business unit. These systems focus on continual environmental improvement through planning, implementation, auditing, corrective action and review. Point Lepreau is registered to the international environmental standard ISO 14001 while Generation, Transmission and Customer Service operate under environmental management systems based on ISO 14001. Nationally, NB Power participates in the Canadian Electricity Association's Environmental Commitment and Responsibility Program, an industry-wide initiative on environmental performance.

A Solid Foundation

During 2002-2003, the Grand Lake Generating Station received a three-year air quality operating approval. The combustion turbines at Millbank and Ste.-Rose received five-year approvals. Generation's ongoing air and water quality protection achievements included:

- sulphur dioxide emissions below regulated levels
- particulate emissions from large stations below federal levels required for new station sources
- over 99% of tested wastewater effluent satisfied environmental approvals

Almost 220,000 tonnes of gypsum, a by-product of cleaning flue gases, was shipped to a wallboard processor. Over 21,000 tonnes of flyash was sold for use in concrete products, while 1,800 tonnes of ash was recycled for vanadium for use in the steel industry. A new landfill cell, designed and constructed to regulated guidelines, was constructed at Coleson Cove for the disposal of by-products.

In 2002-2003, Transmission and Customer Service fully implemented environmental management systems consistent with the ISO 14001 standard. Transmission employees maintained brush along 1,200 kilometres of transmission line rights-of-way. Employees tended to the 274 recorded osprey nests on transmission lines to prevent contact with power lines.

Specialized environmental training continued with a pesticide safety course, forestry/industrial certification and environmental protection training for route selection, design, construction and maintenance of power lines. Successful programs to reuse and recycle various materials from power lines and meters continued during the year. During the decommissioning of existing lines, hardware such as conductors, insulators, cross-arms and poles is reused or recycled. If these opportunities are not available, the hardware is disposed of at approved facilities.

The Corporation was part of province-wide teams that assisted in the recovery strategy for the endangered Furbish's Lousewort. Along with the Federal Department of Fisheries and Oceans, NB Power supports the Atlantic Salmon Federation's examination of salmon management in the St. John River Basin.

Building Opportunities

Much of NB Power's future environmental performance will result from the current development plan which incorporates significant environmental improvements.

Following environmental approval, work began on the Coleson Cove refurbishment project. The project will see significant equipment upgrades at the station:

- a flue gas desulphurization system to reduce sulphur dioxide emission rates by approximately 77%
- boiler modifications to reduce nitrogen oxide emission rates by approximately 70%
- electrostatic precipitators to reduce particulate emission rates by approximately 75%

The proposed refurbishment of Point Lepreau Generating Station is the key element of NB Power's carbon dioxide mitigation options to meet targets for both the Kyoto Accord and a regional agreement by the New England Governors and Eastern Canadian Premiers. An Environmental Assessment Study Report on the Solid Radioactive Waste Management Facility for Point Lepreau was submitted to the Canadian Nuclear Safety Commission with public hearings scheduled during 2003-2004.

Following a positive review by federal environmental authorities and a public hearing, the National Energy Board gave approval for the proposed international power line project to proceed. Current work is focused on designing the associated tariff and securing environmental and regulatory permitting in the United States.

NB Power is exploring wind power as a renewable energy resource and a means to satisfy emerging emission standards. Efforts have focused on wind assessments and exploring project proposals with the private sector. In partnership with local developers, development at several sites around the province are being accessed. To enhance understanding of alternative energy development, wind energy information seminars, which attracted more than 300 interested individuals, were held in Fredericton and Shippagan.

GENERATION

Objectives

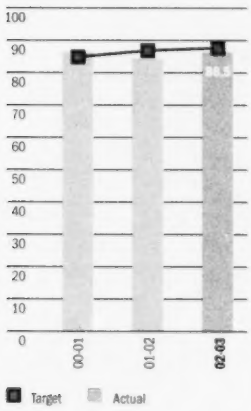
- Meet generation station unit availability targets
- Effectively manage operating and capital costs
- Maximize out-of-province margins
- Champion safety of employees, public and equipment
- Operate in compliance with environmental regulations

Operating one of North America's most diverse generating systems, Generation produces economic electricity at its oil, hydro, coal, Orimulsion® and diesel powered stations. The network of conventional generating stations has an installed capacity of 3,134 MW comprised of thermal capacity of 1,923 MW, hydro capacity of 884 MW and combustion turbine capacity of 327 MW.

Unit Availability

(percentage)

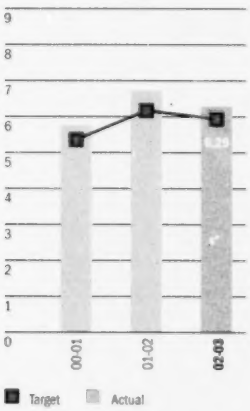
Unit availability is the percentage of time, including planned and unplanned outages, a station is available to generate electricity.



OM&A

($ per MWh)

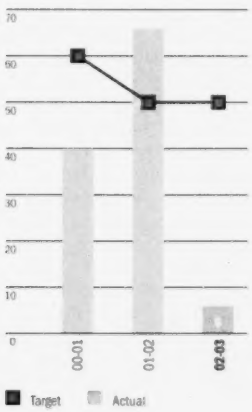
Operations, maintenance and administration costs are tracked to measure efficient resources management.



Safety

(days lost)

The 66 days in 2001-2002 resulted from one incident at Dalhousie in May 2001.



A Solid Foundation

The Generation Business Unit continued to produce economic and dependable electricity at its facilities, with improved year-over-year station availability performance. Overall, the generating stations performed well against measured performance availability targets and major stations at Belledune, Dalhousie and Coleson Cove met their targets.

A number of factors contributed to the higher cost of generating power during the fiscal year. These included higher prices for heavy fuel oil and natural gas and the unavailability of Orimulsion® in the last quarter of the fiscal year. Generation experienced four new all-time customer demand peaks during the months of January and February – this record demand for electricity was met by utilizing all in-province generation sources supplemented by imports.

Export sales were 37% lower than the previous year as the higher cost of heavy fuel oil and the interruption in the Orimulsion® supply often made it uneconomic to sell to the US market. In addition, water levels were exceptionally low during peak export periods, which meant reduced availability of lower-cost energy in-province, thereby increasing the cost of power available for export.

Employees in Generation worked to minimize the impact of the higher fuel and power costs. Throughout the difficult year, the business unit met its budget on operations, maintenance and administration costs. The key area of opportunity to have an impact on efficiency is production reliability and availability. For example, the Dalhousie Generating Station was required to switch fuels from Orimulsion® to heavy fuel oil in response to a shortage caused by the general energy sector strike in Venezuela. This fuel switch over, which required specialised technical and operations work, was achieved safely and in minimal time.

Safety performance in the business unit showed significant improvement as the total number of days lost to injury was reduced from 66 to 6. Important safety milestones were reached at nearly every generating station – of note, Hydro has not had a lost-time accident in five years. Additionally, the New Brunswick Workplace, Health Safety and Compensation risk management services audit scores for Generation have shown continued improvement over the past four years reflecting the improving safety orientation in the workplace.

Building Opportunities

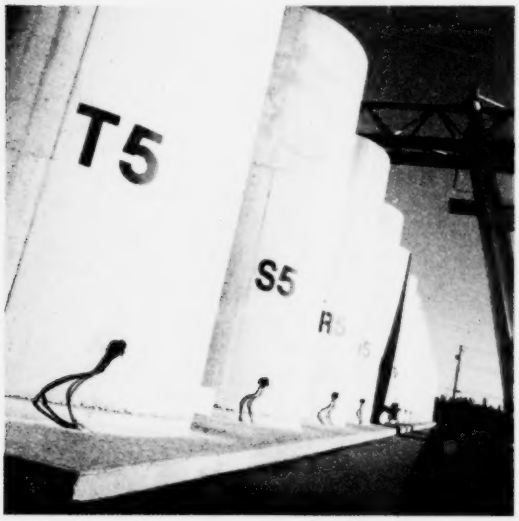
The operation of the Coleson Cove Generating Station beyond 2005 requires upgrades to meet new environmental standards. The $747 million refurbishment currently underway will see advanced environmental control equipment installed to significantly reduce emission rates. Converting the station's fuel supply from oil to Orimulsion® will significantly lower fuel costs and fund the new environmental equipment.

Following a positive recommendation from the Public Utilities Board, NB Power filed its Environmental Impact Assessment with the Provincial Department of Environment and Local Government. The subsequent approval came with 18 conditions that required additional project work in the areas of air quality, marine impacts, spill prevention and response, and fuel delivery. These conditions must be met prior to receiving a licence to operate the refurbished station.

Construction on the project started in early November and has continued on schedule and on budget for completion in November 2004.

As well, a Community Environment Liaison Committee was established and has held a number of meetings to keep project stakeholders up-to-date on progress and answer any concerns.

NUCLEAR



Objectives

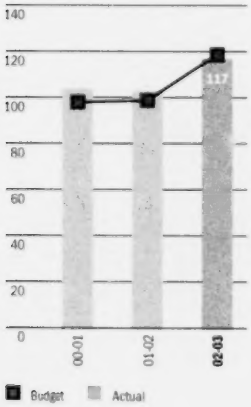
- **Equipment and human performance reliability** - reduce risk of forced outages and provide staff with tools to succeed
- **Outage management** - reduce outage duration and maintain schedule adherence
- **Training** - develop and administer training programs for licence requirements and other key areas
- **Quality Management System** - ensure an effective system of quality management processes
- **Align and engage staff** - provide staff with skills, knowledge and information

The CANDU 6 – 635 MW unit at Point Lepreau generates low-cost electricity, supplying approximately 30% of in-province energy. Generation from the station is important to the Corporation's economic and environmental performance because it is the lowest variable cost thermal generator on the system and displaces significant amounts of air emissions.

OM&A Costs

(in millions)

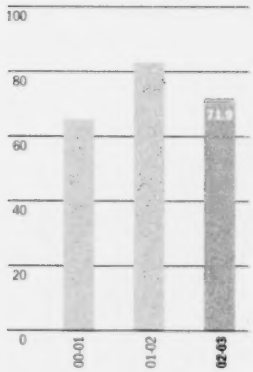
Operations, maintenance and administration are tracked against budget estimates to measure effective planning and management.



Capacity Factor

(fiscal year)

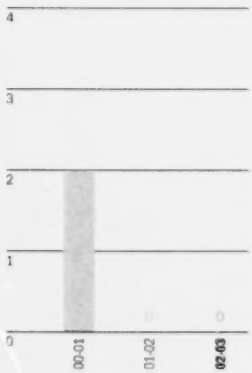
The gross capacity factor is the percentage of reference gross generation that the unit is capable of producing in a specified period.



Safety

(number of lost-time accidents)

Lost-time accidents are monitored to measure effectiveness of the station's safety programs and strength of the safety culture.



A Solid Foundation

The Point Lepreau Generating Station reached a significant milestone in 2002-2003 when it surpassed 20 years of service and generation of its 100 million megawatt hour of electricity. During the year, Point Lepreau's capacity factor deviated only 2% from its planned level of 74% because of a longer planned maintenance outage. The station's financial performance was notable as operations, maintenance and administration costs were below budget even with unexpected costs encountered during the maintenance outage.

All key elements of work were completed during the planned maintenance outage including SLARette verification of 70 channels, inspection of feeder tubes, boilers and the low-pressure turbine, and implementation of the emergency core cooling project. Following the outage, a self-assessment was conducted to better understand why it was of longer duration than the anticipated 66 days. Planning is well advanced for the maintenance outages scheduled for 2003 and 2004.

The Canadian Nuclear Safety Commission (CNSC) awarded Point Lepreau a 38-month licence renewal which is the longest the station has ever received. The CNSC also accepted the submission to raise the power limit by 1%, which endorsed the safe management of the facility and will allow for greater generation opportunities.

By emphasizing quality work procedures and methodologies, employees achieved an enviable safety record during 2002-2003 with the completion of more than 2,000,000 person hours of work without a lost-time accident. Staff have embraced station safety programs – the STAR program (Stop, Think, Act and Review) and the Problem Identification and Corrective Action System.

Security has been at a heightened state at the station since September 11, 2001. The CNSC, which regulates Canadian nuclear facilities, specified higher security standards based on assessment studies. These have included external on-site response assistance, enhanced security clearance for workers and contractors with site access, and upgraded security infrastructure.

During the year, Stuart Groom, chief nuclear engineer, received the prestigious Ian McRae Award from the Canadian Nuclear Association honouring his outstanding contribution to nuclear energy development in Canada.

Building Opportunities

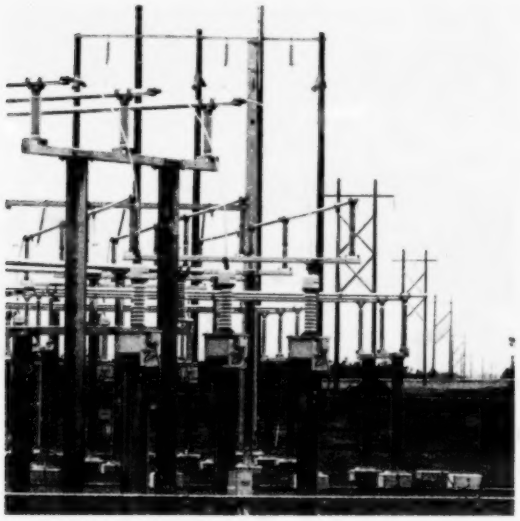
During the fiscal year, the New Brunswick Public Utilities Board (PUB) recommended to NB Power's Board of Directors that the station refurbishment project, as then presented, not proceed because there was no significant financial advantage. The PUB decision did not weigh development criteria such as the environmental advantages of refurbishment, particularly in the area of controlling carbon dioxide emissions, which is an important consideration when evaluating the project.

To progress the refurbishment project, NB Power submitted an environmental assessment study report on the modifications to the solid radioactive waste management facility to the CNSC. In conjunction with other federal and provincial authorities, the CNSC published a screening report for public review in March 2003. A hearing on the environmental assessment is planned for June 2003 with a decision expected later in the year.

Through the corporate restructuring of NB Power in 2003-2004, Nuclear's goals and objectives will be centred on being an attractive investment choice for a refurbishment equity partner and achieving refurbishment and world class operating standards by 2010. The *Business Plan 2003-2004* has identified focus areas with targets, milestones and performance indicators:

- improve reliability – reducing the risk of forced outages through predictive and preventative maintenance programs, system health monitoring programs and schedule adherence
- plan and execute maintenance outages – the 2003 planned maintenance outage is scheduled for mid-September for 24 days
- develop human resources skills – continue training programs for certified station operators and other important trades, technical, and supervisory training programs
- develop and implement a quality management system – ensure a quality management process in compliance with the Canadian Standards Association
- prepare for refurbishment – secure environmental approval for the solid radioactive waste management facility and progress project activities
- maintain sound financial management – managing within the operations, maintenance and administration and capital budgets and reducing staffing levels

TRANSMISSION



Objectives

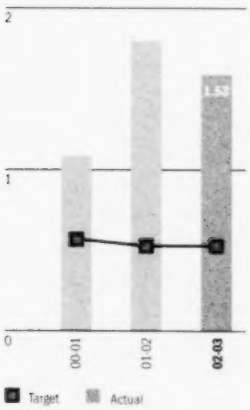
- Safety
- Reliability
- Competitive pricing
- Environmental responsibility
- Valued, customer-focused employees

Responsible for reliable and safe delivery of electricity to the distribution system and point-to-point transmission customers, Transmission operates and maintains 6,700 km of transmission lines and industrial substations, radio towers, switchyards and interconnections. The Energy Control Centre is the operational nerve centre including transmission system access via the on-line Open Access Same-Time Information System.

Reliability – SAIDI

(hours)

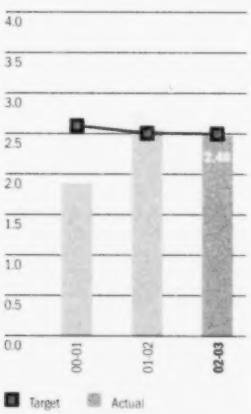
System Average Interruption Duration Index (SAIDI) is the average total duration of interruptions during the year. (Severe seasonal weather events contributed to interruptions.)



Transmission Faults

(faults per 100 km)

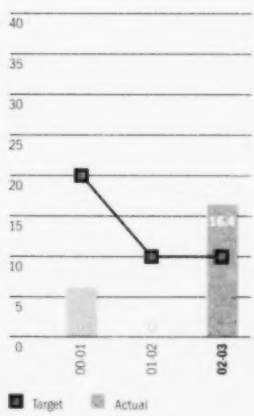
All voltage levels - excluding extreme weather faults.



Safety

(severity)

The number of days lost due to injury per 200,000 hours worked.



A Solid Foundation

Transmission greatly enhanced the reliability of service to the Acadian Peninsula with the commissioning of a new terminal in Tracadie linked by a new 138 kV transmission line from Allardville. This project created a second major transmission supply route to the area, adding to the existing Caraquet line and terminal, and allowed for improved flexibility to help reduce the possibility of extended outages. Other important system reliability upgrades were completed or started in Oak Bay, Dieppe, Memramcook, and the Saint John area.

The transmission system was severely impacted by extreme weather in July, experiencing 76 faults during a four-day period, mostly due to lightning strikes on the transmission lines. The lightning caused several large-scale outages, with the most-affected areas being Moncton and the west side of Saint John. Post-storm analysis revealed that the installation of lightning arresters on critical Saint John-area lines has proven to be very effective as faults were confined to sections not yet equipped with these devices. The arrester installation program is on-going.

As Transmission continued its construction and maintenance program, it achieved a major safety milestone. The accomplishment of 1,000,000 person hours without a lost-time accident, during the year, was especially significant given the often harsh working conditions encountered by employees in the field and on construction sites. Meanwhile, Transmission co-hosted *Safety Meet 2003*, as part of continuing efforts to maintain an accident-free working environment.

During the year, NB Power and Nova Scotia Power jointly undertook a Northeast Power Co-ordinating Council (NPCC) compliance review of the Maritime Control Area. The review is a requirement of the NPCC reliability compliance and enforcement program. It requires a review of the system restoration plan, operating reserve criteria, operating security limits, load shedding, and bulk power system minimum maintenance. The audit found that both utilities are in full compliance with NPCC requirements.

Building Opportunities

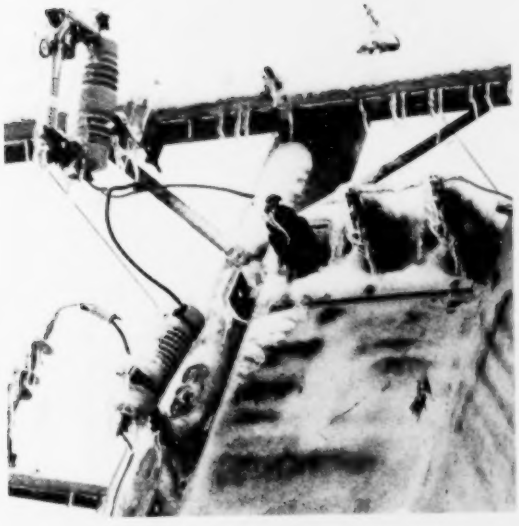
Increased interconnection transfer capability in both directions would be enhanced with the proposed construction of a second New England interconnection. The 345 kV transmission line and interconnection with Maine would increase opportunities for point-to-point service, improve overall system reliability and enhance transmission efficiency. It would also facilitate development of a competitive electricity market in the province consistent with the Provincial Government's energy policy objectives.

The project was advanced during the year with the submission of the Comprehensive Study Report (CSR) to the National Energy Board (NEB) and other federal agencies for approval. After reviewing the CSR, the Federal Minister of Environment Canada concluded that the project, with mitigation, was not likely to cause significant adverse environmental effects and no further environmental assessment was warranted. Following a public hearing in March 2003, the NEB gave approval for the project to proceed. Current work is focused on designing the associated tariff and securing environmental and regulatory permitting in the United States.

NB Power filed an open access transmission tariff with the Public Utilities Board and presented evidence during 22 days of hearings. This application was to establish the rate to be charged for use of the transmission system and to define the terms and conditions for system access. The tariff was designed to be consistent with energy regulatory requirements in the United States.

The tariff decision, handed down March 2003, includes the terms, conditions and rates for transmission services, ancillary services, service agreements, interconnection agreements, a transmission expansion policy, and standards of conduct. Of note, Transmission was granted a modified performance-based regulation which provides an incentive for efficiency and productivity gains to maintain the rate of return without additional regulatory hearings. As well, with this regulatory approach, long-term system investments are not neglected to achieve short-term efficiencies.

CUSTOMER SERVICE



Objectives

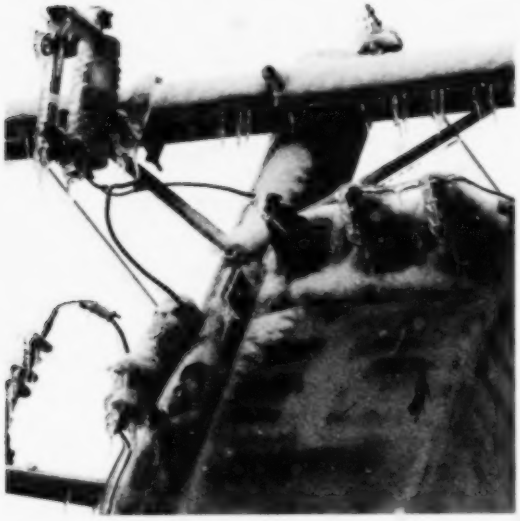
Serving residential, commercial, wholesale and industrial customers across the province, Customer Service safely and reliably delivers competitively priced electricity by way of its 26,500 km of distribution lines. It provides valued customer products and services through its regional operations offices, customer contact centres, energy advisors and account managers.

Grade of Service

Safety

Reliability – SAIFI

CUSTOMER SERVICE



Objectives

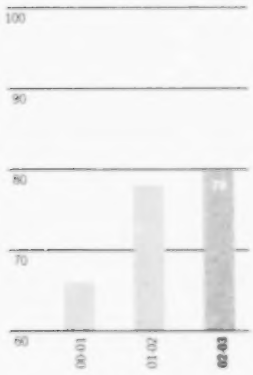
- Achieve world-class safety performance
- Sustain environmental compliance
- Deliver top quartile reliability performance
- Reduce costs while meeting service targets
- Be recognized as "a great place to work"

Serving residential, commercial, wholesale and industrial customers across the province, Customer Service safely and reliably delivers competitively-priced electricity by way of its 26,500 km of distribution lines. It provides valued customer products and services through its regional operations offices, customer contact centres, energy advisors and account managers.

Grade of Service

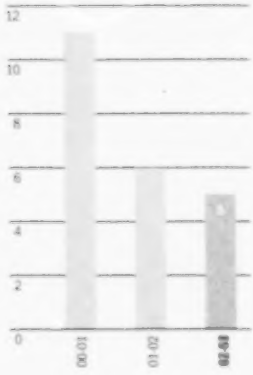
(percentage)

Grade of service is the number of calls answered within twenty seconds.



Safety

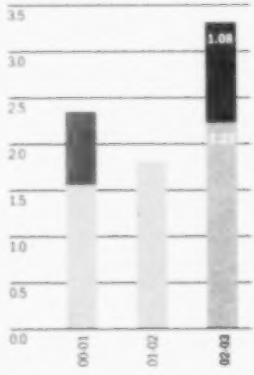
(number of lost-time accidents)



Reliability – SAIFI

(frequency)

System Average Interruption Frequency Index (SAIFI) measures the average number of times each customer on the distribution system is without power annually.



Major ice storm

SAIFI (excluding loss of transmission supply)

A Solid Foundation

Overall reliability performance remained strong but was affected by province-wide lightning storms in the summer and a localized ice storm in the winter. Damage to distribution facilities in eastern and southern New Brunswick, caused by freezing rain on Groundhog Day, was the most severe in many years. The recovery work balanced speed and safety which resulted in the timely restoration of service to 65,000 customers with no lost-time accidents. Throughout the multi-day restoration effort, NB Power crews were assisted by contractors and crews from Saint John Energy, Nova Scotia Power, Maritime Electric and Maine. Changes implemented as a result of previous emergencies proved invaluable to the restoration. These included improving the *Emergency Restoration Plan*, enhancing the telephone interface at customer contact centres and providing better information to the media.

Continued focus on safety has lowered lost-time accidents in the last three years, from 11 to six to five. In addition to the on-going Joint Health and Safety Committees and a "Safety Takes You Home" campaign, Customer Service co-hosted *Safety Meet 2003*, with the theme "Take Charge, Do It For You, Do It For Your Family". Employees and contractors participated in this event which concentrated on preventing accidents at work and home. These safety programs are undertaken with the International Brotherhood of Electrical Workers Local 37, which represents unionized employees.

Commitment to safety was further evidenced by a program to reduce customer contacts with wires. The dramatic decline in customer contact incidents, from 92 to 17 year-over-year, was the result of a concerted effort to develop a public safety campaign delivered to customers through radio, television, print and the Internet.

Enhanced customer service initiatives, such as the improved self-serve option on the telephone system were implemented and communicated to customers. Continued efforts to work with customers experiencing payment difficulty has allowed the effective management of arrears levels. From a financial perspective, Customer Service ended the fiscal year $900,000 over the operational, management and administration budget despite incurring $4 million in unbudgeted weather-related costs.

Building Opportunities

Establishing and progressing an improvement agenda provided a framework for ongoing initiatives throughout the business unit.

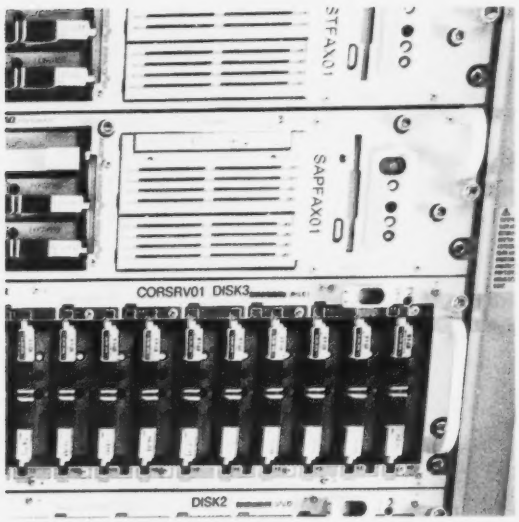
To meet growing demand in eastern New Brunswick, work on the Dieppe substation and transmission line continued. Eastern Region staff have worked with the communities and property owners in the area, through the siting and pre-construction phases of this project. The launch of the Outage Management System, a service restoration system upgrade, occurred in February. A meter reading rerouting project was completed in the Eastern Region which will allow for better route management, more efficient use of resources and fewer billing estimates. Other improvement initiatives included continued efforts with Aliant Inc. to more effectively share work common to both utilities.

Senior members of the management team prepared the business unit for restructuring. Among many activities, Customer Service worked with Corporate Services to develop separate financial systems and prepare for commercialization of the business unit.

As part of succession planning, Customer Service and the New Brunswick Community College completed a pilot project with 15 students graduating from a power line technician training program. Additionally, the Contact Centres hired and trained full-time university students to provide vacation relief from May to October. The program also affords an opportunity to add staff for peak call volume periods during the rest of the year and provides students greater appreciation of NB Power as a potential career choice.

Customer Service has continued its commitment to environmental management by meeting its objective to be ISO 14001 compliant by December 2002. By establishing a management system to understand impacts on the environment, and by having in place actions to actively control, minimize or mitigate environmental concerns, the business unit met its environmental goals.

CORPORATE SERVICES



Objectives

- Provide strategic advice to the business units
- Ensure timely, expert and efficient services
- Support executive and senior management
- Assist business unit development

Human Resources and Administration

Sustained emphasis at all levels of the Corporation has continued to improve the safety of employees and the public. In 2002, NB Power recorded the lowest all injury/illness frequency rate and severity rate among Canadian Electricity Association members with more than 500 employees. The Corporation's all injury/illness frequency rate per 200,000 hours worked has improved each of the past three years and has been a national leader during the same period. An extensive public awareness campaign – in print, television, radio and the Internet – contributed to an 82% decline in public accidental contacts with power lines and facilities as 17 contacts occurred in 2002 compared to 92 in 2001.

The planned realignment of bargaining units with business units was completed with the signing of three multi-year collective agreements. Five-year agreements in Customer Service and Transmission and a seven-year agreement in Nuclear were concluded late in the year. A four-year agreement in Generation was concluded the previous year. With these agreements in place, attention is turning to contract implementation, labour/management training programs and implementation of a new conflict resolution model.

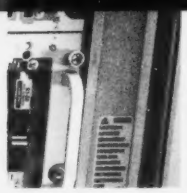
NB Power's leadership and innovation in human resources was recognized nationally during the year. The Corporation was awarded the Canadian Health Care Manager's "Who's Who in Healthcare Plan" Sponsor Award and was nominated for an Atlantic Canada Human Resources Association award for excellence. This recognition as an industry leader resulted from innovative approaches to a comprehensive human resources strategy and supporting programs and services.

Progress was made in information systems development as additional self-service functionality was implemented providing employees the ability to access and update their secure personal information on-line. Over four hundred employees participated in the Leadership Development Program during 2002-2003 as education programs centred on team and individual leadership awareness and development. Building on its successful workplace wellness strategy, Employee Wellness Services introduced Personal Health Profiles in an effort to identify health risk factors that can affect benefits costs.

Finance

A significant part of the corporate restructuring effort was the "Finance in Transition" initiative which saw financial systems and processes upgraded to produce separate financial statements for the new operating companies. In other work related to restructuring, Treasury developed financial models to facilitate the corporatization of the operating companies. Staff also worked with the Province of New Brunswick and investment bankers to develop the procedure for the debt-equity swap.

Finance staff provided extensive support to the regulatory hearings for the Coleson Cove and Point Lepreau refurbishment projects and the transmission tariff. Expertise was also provided to the Nuclear business unit as Finance worked with the Canadian Nuclear Safety Commission on establishing the used nuclear fuel management and nuclear decommissioning funds as required by an operating licence condition for the Point Lepreau Generating Station.



The Finance Division assisted in ongoing risk assessments and control processes at the Corporate and business unit levels in 2002-2003. Comprehensive operational risk refreshes were completed in each business unit and in Business Information Systems. The status of action plans to address business unit and divisional risks are reported to management, the Audit Committee of the Board of Directors, and the Board of Directors.

Business Information System

The Business Information System Division contributed significantly to the corporate restructuring effort. Working with the business units, BIS re-sequenced initiatives in the Corporate Information Technology Plan and its own divisional work plan to meet the challenging schedule for information system changes and upgrades. Of particular note, BIS leveraged investment in Enterprise Resource Planning Systems to align the financial information systems to the new management and reporting requirements for the operating companies.

BIS continued to support the Corporation's computing environment by maintaining more than 2,200 computing devices in 30 locations throughout the province. Proactive programs for IT architecture, aging systems, disaster recovery and IT service management continued through 2002-2003. As well, BIS provided support to the new outage management system that was implemented for Customer Service.

An internal initiative to ensure that information technology service offerings and delivery are aligned with the future requirements of the operating companies was completed in BIS during the year. This will position BIS to continue to be proactive and responsive in delivering services to the Corporation.

Public Affairs

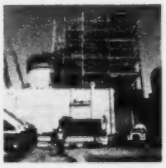
On-going communication programs during the year supported the regulatory and environmental approval processes for the Coleson Cove and Point Lepreau refurbishment projects and the international power line project. These comprised public consultations and information sessions with stakeholders and project presentations throughout New Brunswick. After receiving environmental approval for the Coleson Cove project, a community environmental liaison committee was established. Community relations activities were also undertaken for new substations in Dieppe, Chipman and St. Stephen.

An extensive internal communications program for corporate restructuring, under the banner "Generating Change – Communications During NB Power's Transition", included executive and senior management presentations to employees at key points during the year, a new section on the Corporate Intranet site and periodic "Keeping the Lines Open" newsletters. On numerous occasions, members of the Board of Directors or senior management updated economic associations, service organizations and key stakeholders on restructuring.

During the Groundhog Day Ice Storm there were over 300 provincial and national media requests and 7,000 hits to the Corporate website's outage information page. As the storm damaged many trees, NB Power, Moncton, Riverview and the local "Communities in Bloom" organization joined forces to promote Arbour Day. Free seedlings were given away and a draw for a 12-foot red pine tree was held. Especially important, tree care experts were on hand to share tips on caring for trees and planting new ones to avoid power lines. Other public relations programs supported the Corporation's participation in the Canada Winter Games and the Peter Gzowski Golf Tournament for Literacy.

The Corporate Internet site is a valuable communication tool for all parts of NB Power, at times reaching 12,000 visitors monthly. Regulatory and environmental information on the development projects kept all stakeholders informed. The *Kids' Zone*, an on-line, interactive safety program, grew significantly during its second year – close to 3,000 children tested their knowledge on safety by completing interactive puzzles, word searches and mazes.

Financial REVIEW 2002-2003



Management's Discussion and Analysis 24

Management Report and Auditors' Report 36

Consolidated Financial Statements 37

Notes to the Consolidated Financial Statements 41

Statistical Overview 51

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis reviews financial results from operations for the fiscal year ended March 31, 2003, relative to the previous fiscal year and the Corporation's financial position at March 31, 2003. It should be read in conjunction with the Consolidated Financial Statements and accompanying notes.

ELECTRICITY DEREGULATION

In May 2002 the Province of New Brunswick announced it was implementing a managed transition of the electricity market from the current monopoly structure to a competitive environment for wholesale and large industrial sectors and allowing non-utility generation. The *Electricity Act*, subsequently introduced to the Legislative Assembly in January 2003, provides the authority for restructuring the electricity market and the corporate restructuring of NB Power. The *Act* received royal assent in April 2003 and is expected to be proclaimed during 2003-2004.

Corporate Structure Changes

Consistent with the changes to the electricity market, NB Power is evolving from a single corporation to a holding company with four operating companies:

- New Brunswick Power Holding Corporation
- New Brunswick Power Nuclear Corporation
- New Brunswick Power Generation Corporation
- New Brunswick Power Transmission Corporation
- New Brunswick Power Distribution and Customer Service Corporation

The holding company will facilitate interaction with the shareholder, the Provincial Government, and provide services to the new operating companies. These new operating companies will be expected to:

- manage revenues and costs
- borrow without a provincial guarantee (excluding the Nuclear Corporation)
- achieve return on equity targets
- make payments in lieu of taxes and pay dividends

Under provisions of the *Electricity Act*, two other organizations will be created. The New Brunswick System Operator will be an independent not-for-profit Crown Corporation mandated to direct the operation of the transmission system. On the advice of a Market Advisory Committee, it will also establish and enforce market rules. Of particular note, the System Operator will ensure that the standard supplier to customers has sufficient capacity to meet customers' requirements in the New Brunswick electricity market.

Additionally, the establishment of the New Brunswick Electric Finance Corporation will facilitate conversion of NB Power's debt to appropriate capital structure in the operating companies through a debt-equity swap. This Corporation will also assume and reduce over time the remaining portion of NB Power's debt through cash flows from the new operating companies.

The *Electricity Act* also provides the Province of New Brunswick with the authority to:

- sell all or part of the Coleson Cove Generating Station or enter into an agreement including a trust, lease, partnership, joint venture or operating agreement with respect to the station
- enter into an arrangement including a trust, lease, partnership, joint venture or operating agreement with respect to the Point Lepreau Generating Station

- effect the transferring of officers, employees, assets, liabilities, rights and obligations of New Brunswick Power Corporation to the New Brunswick Power Holding Corporation, the four operating companies, the System Operator and the New Brunswick Electric Finance Corporation. The transfers of assets, liabilities, rights and obligations will be completed at book value.

Electricity Market Changes

Once the new market begins, New Brunswick's electricity market customers will include:

- NB Power Distribution and Customer Service, which will supply residential, business and industrial customers within the province
- existing wholesale municipal energy companies and large industrials at transmission voltages, which choose not to receive service from NB Power Distribution and Customer Service
- eligible customers in Prince Edward Island, Northern Maine and Nova Scotia

These customers will have the opportunity to enter into agreements with their choice of suppliers including NB Power Generation, other electric utilities or independent power producers.

NB Power's Development Projects

The goals of NB Power's business development plan are to ensure the availability of reliable power, meet evolving environmental standards and maintain stable and competitive power rates that support economic growth. Investment analysis has identified projects that are key to attaining these goals. These projects are in various stages of regulatory and environmental assessment or construction.

Coleson Cove Generating Station Refurbishment

Conversion of the oil-fired Coleson Cove Generating Station to burn lower cost Orimulsion®, and upgrade environmental control equipment is underway. The project received environmental approval from the Provincial Department of Environment and Local Government and construction is scheduled for completion by November 2004. Following a search for equity partners during 2002-2003, the Provincial Government decided to retain ownership of the station at this time and continue the refurbishment project.

Point Lepreau Nuclear Generating Station Refurbishment

NB Power is proposing to refurbish the Point Lepreau Generating Station during an 18-month outage beginning April 2007 or 2008. In September 2002, the Public Utilities Board (PUB) recommended to the Board of Directors that the project, as then presented, not proceed because there was no significant financial advantage over natural gas, a potential replacement source of generation. Recognizing that, the Board of Directors believes there are other factors outside the scope of the PUB's review that will be important in a decision on the project. Of particular importance will be the environmental benefits from continued operation of the station and uncertainty in pricing and supply of natural gas. The Province of New Brunswick intends to seek external investment for the project.

Transmission

During 2002-2003, NB Power received approval from the Public Utilities Board to implement an open access transmission tariff to provide non-discriminatory access to generators and consumers inside and outside the province.

On the development side, a second 345 kV transmission line and interconnection with Maine would increase opportunities to import and export power, improve overall system reliability and enhance transmission efficiency. NB Power applied to the National Energy Board (NEB) for a Certificate of Public Convenience and Necessity to construct, operate and maintain the proposed power line. Following a positive review by federal environmental authorities and a public hearing, the NEB gave approval for the project to proceed.

MANAGEMENT'S DISCUSSION AND ANALYSIS OVERVIEW

Financial Performance in millions

	2002-03	2001-02	2000-01
Net income (loss)	**$ (77)**	$ 19	$ (80)
Operating cash flow	**$ 133**	$ 234	$ 214
Free cash inflow (outflow)	**$ (86)**	$ 64	$ 114
Reduction (increase) in net debt	**$ (104)**	$ 41	$ 23

An accounting policy change related to foreign exchange translation of US debt was implemented effective April 1, 2001. Before this change, net income for the year ended March 31, 2002 was $3 million and the net loss for the year ended March 31, 2001 was $14 million.

Financial Ratios and Percentages

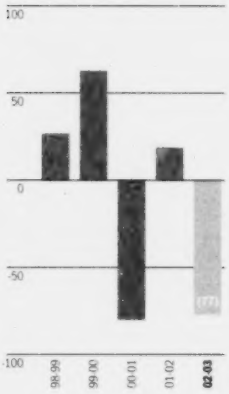
	2002-03	2001-02	2000-01
Operating margin	**13%**	21%	21%
Operating cash flow/ capital expenditures	**.61x**	1.67x	1.81x
Debt/capital	**106%**	103%	104%
Interest coverage	**.66x**	1.08x	.68x

NB Power recorded a net loss of $77 million in 2002-2003, compared to a net income of $19 million in 2001-2002.

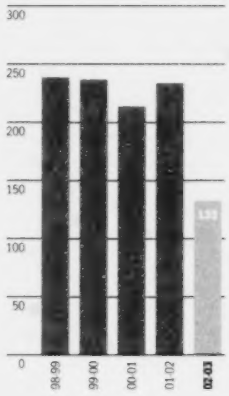
Several operating and financial factors affected fiscal year results, most significantly a decline of $82 million in margins on export sales. Profits on export sales fell due to higher energy costs from oil and natural gas price increases coupled with reduced availability of low-cost nuclear and Orimulsion® energy supplies. The contributing factors were:

- prices for heavy fuel oil and natural gas, net of foreign exchange changes, affected both in-province and export sales gross margins
- interruption in the supply of Orimulsion®, a fuel from the Orinoco region of Venezuela, necessitated use of more expensive heavy fuel oil at the Dalhousie Generating Station
- decline in nuclear generation as an extended planned maintenance outage meant greater reliance on more expensive generation and power purchases
- higher generation costs often made it uneconomical to sell into the US market and this was compounded by colder-than-average winter weather, low hydro levels, and lower nuclear capacity, which reduced the amount of energy available for export
- operations, maintenance and administration costs were higher year-over-year primarily as a result of outage costs incurred at the Point Lepreau Generating Station

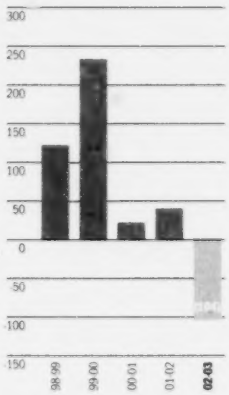
Net Income Before Transfers and Write-off
(in millions of dollars)



Operating Cash Flow
(in millions of dollars)



Reduction in Net Debt
(in millions of dollars)



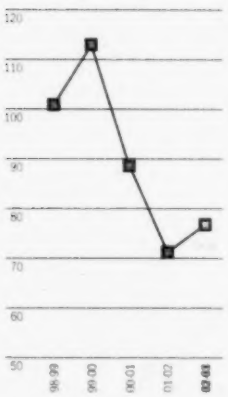
The cost pressures were mitigated somewhat by several factors:

- in-province gross margins increased compared to 2001-2002 as a result of colder weather that drove demand higher in several customer sectors, an average 2.1% rate increase implemented April 1, 2002, and higher energy charges for non-firm sales
- a year-over-year decrease in finance charges resulted primarily from lower interest costs and the stronger performance of the Canadian dollar
- while net hydro generation was lower than the long-term average, performance was better year-over-year resulting in lower replacement fuel costs

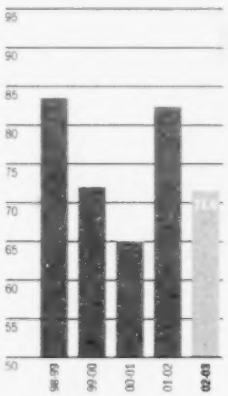
As a result of the lower net income, operating cash flow in 2002-2003 was $133 million, a decrease of $101 million from 2001-2002.

The Corporation's debt increased by $104 million in 2002-2003 due to the lower net income and higher capital spending to support the development projects at the Coleson Cove and Point Lepreau generating stations.

Hydro Net Generation



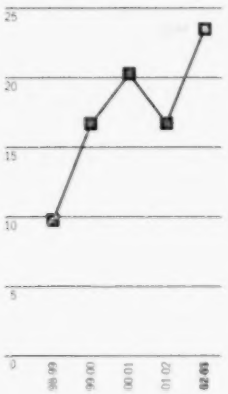
Point Lepreau Net Capacity Factor



Financial and Operating Performance

	2002-03	2001-02	2000-01
Hydro net generation as percentage of long-term average	**76.8%**	71.3%	88.6%
Point Lepreau Generating Station net capacity factor	**71.6%**	82.5%	65.1%
Canadian dollar at March 31st ($US equivalent)	**$ 0.681**	$ 0.628	$ 0.634
Average heavy fuel oil price ($US/bbl Platt's NY 3%)	**$ 23.49**	$ 16.72	$ 20.28
Average natural gas price ($US/mmBTU)	**$ 4.22**	$ 3.09	$ 5.22
Average New England on-peak prices ($US/MWH)	**$ 51.29**	$ 41.26	$ 57.18

Heavy Fuel Oil Price



OPERATING RESULTS 2002-2003

Revenue Overview in millions

	2002-03	2001-02	2000-01
Sale of power			
In-province	**$ 993**	$ 919	$ 931
Out-of-province	**227**	359	332
Miscellaneous	**53**	41	46
Total revenues	**$ 1,273**	$ 1,319	$ 1,309
% increase	**(3.5)%**	.8%	4.9%

Total revenue was $1.273 billion in 2002-2003, a decrease of $46 million or 3.5% from 2001-2002.

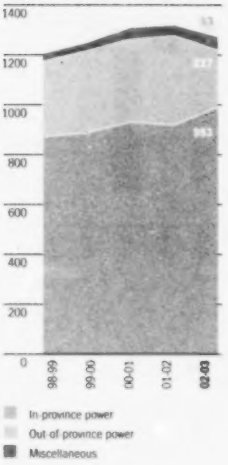
In-Province Revenue in millions

	2002-03	2001-02	2000-01
Residential	**$ 393**	$ 358	$ 364
Industrial	**316**	294	298
General service	**190**	180	178
Wholesale	**77**	70	73
Street lights	**17**	17	18
Total	**$ 993**	$ 919	$ 931
GWh	**15,547**	14,627	14,944

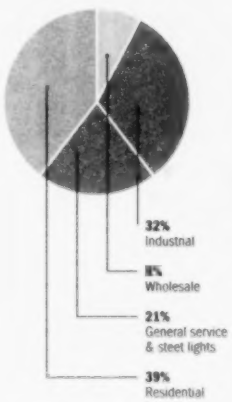
In-province revenue was $993 million in 2002-2003, an increase of $74 million or 8.1% from 2001-2002. The major contributors to the year-over-year variances were:

- The colder weather resulted in higher demand in the residential, general service and wholesale customer sectors and accounted for $39 million of the increase.
- An average 2.1% rate increase was implemented on April 1, 2002 and increased revenue by $19 million.
- Certain industrial sector contract price increases, which are variable and linked to fuel costs, contributed $18 million to the higher in-province revenue.

Revenue Analysis



In-Province Revenue



Out-Of-Province Revenue in millions

	2002-03	2001-02	2000-01
Revenue	**$ 227**	$ 359	$ 332
GWh	**3,069**	5,264	4,878

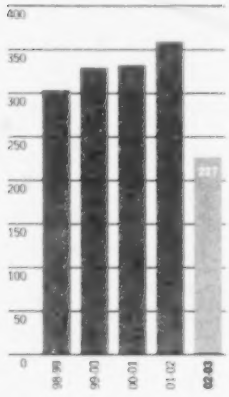
Export sales volume decreases caused a 36.8% decline in out-of-province revenue, down $132 million to $227 million in 2002-2003. This resulted from two main reasons:

- Increased heavy fuel oil prices coupled with the need to replace Orimulsion® with more expensive heavy fuel oil at the Dalhousie Generating Station in the last quarter of the year often made it uneconomical to sell into the US market.
- Energy available for export was also reduced as more generation was required to meet increased in-province winter load demand. NB Power recorded four in-province system net peaks during a six week period in January-February 2003.

Miscellaneous Revenue

Miscellaneous revenue from water heater rentals, transmission tariffs, ancillary services and the sale of steam and generation by-products increased by $12 million or 29.3% to $53 million in 2002-2003. Half of that increase, $6 million, was in transmission tariff revenue, primarily due to new capacity reservations. The price of steam increased $4 million as the contract is related to the cost of heavy fuel oil. Other miscellaneous revenue increased by $2 million.

Out-of-Province Revenue



EXPENSES

Expenses Overview in millions

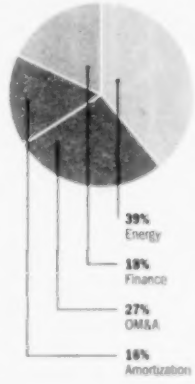
	2002-03		2001-02		2000-01	
	$	%	$	%	$	%
Fuel and purchased power	**$ 527**	**39**	$ 492	38	$ 504	36
OM&A	**364**	**27**	339	26	312	22
Amortization & decommissioning	**216**	**16**	213	16	218	16
Finance charges	**243**	**18**	256	20	355	26
Total	**$ 1,350**	**100**	$ 1,300	100	$ 1,389	100

Total expenses rose 3.8% in 2002-2003 to $1.350 billion. This $50 million increase was driven by a number of factors:

- $35 million increase in fuel and purchased power costs
- $25 million increase in operations, maintenance and administration costs
- $3 million increase in amortization and decommissioning costs

Offsetting these increases was a decrease in finance charges of $13 million.

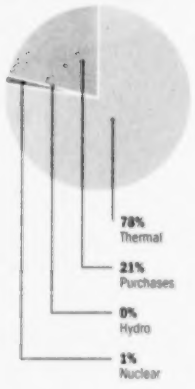
Total Expenses



Fuel and Purchased Power In millions

	2002-03		2001-02		2000-01	
	$	%	$	%	$	%
Hydro	$ 0	0	$ 0	0	$ 0	0
Nuclear	7	1	8	2	7	1
Thermal	408	78	381	77	397	79
Purchases	112	21	103	21	100	20
Total	**$ 527**	**100**	$ 492	100	$ 504	100

In-Province Supply
(in millions of dollars)



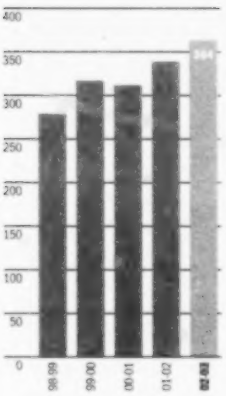
The cost of fuel and purchased power was $527 million in 2002-2003, an increase of $35 million or 7.1% from 2001-2002. Heavy fuel oil represented 52% of this spending, while purchased power from utilities in Nova Scotia, Maine, Quebec and New Brunswick accounted for 21%. The year-over-year increase in fuel and purchased power costs was attributable to:

- Colder weather increased the provincial load by 6.3% raising costs by $48 million.
- The decline in nuclear generation from 82.5% in 2001-2002 to 71.6% meant greater reliance on more expensive generation and power purchases, increasing costs by $26 million.
- Due to heavy fuel oil price increase of 40% and natural gas price increase of 37%, the cost to supply in-province and export sales increased by $41 million.
- Interruption in the supply of Orimulsion®, a fuel from the Orinoco region of Venezuela, necessitated use of more expensive heavy fuel oil at the Dalhousie Generating Station increasing fuel costs by $13 million.

These cost increases were mitigated somewhat by the following lower year-over-year costs:

- While hydro flows were lower than long-term averages, flows actually increased from 71.3% in 2001-2002 to 76.8% in 2002-2003 meaning more hydro electricity was generated year-over-year saving $8 million.
- Since most thermal fuels are purchased in US dollars, improvements in the Canadian dollar decreased unhedged fuel costs by $4 million.
- Generation costs were lower by $81 million because of the decline in export sales volumes.

OM&A Expenses



Operations, Maintenance and Administration Expenses in millions

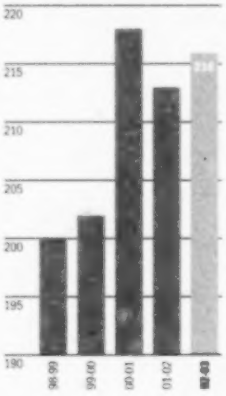
	2002-03	2001-02	2000-01
OM&A expenses	**$ 364**	$ 339	$ 312

Operations, maintenance and administration costs were $364 million in 2002-2003, an increase of $25 million or 7.4% from 2001-2002. The increase was primarily due to:

- higher extended planned maintenance outage and unplanned outage costs at the Point Lepreau Generating Station. Point Lepreau had been operating on a longer outage management cycle since 1999-2000 to optimize capacity factor. Since that time, the station's annual capacity factor has been between 65% and 82% and averaged approximately 73%.
- costs to repair distribution facilities from ice storms in the eastern and southern Customer Service regions in February and March 2003

These increases were somewhat offset by lower year-over-year maintenance costs in the thermal generating stations. In 2001-2002, one-time maintenance costs were incurred at the Coleson Cove, Dalhousie and Belledune generating stations.

Amortization & Decommissioning

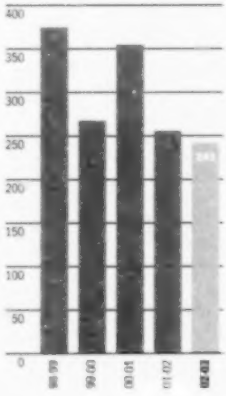


Amortization and Decommissioning in millions

	2002-03	2001-02	2000-01
Amortization and decommissioning	**$ 216**	$ 213	$ 218

Amortization and decommissioning costs were $216 million in 2002-2003, an increase of $3 million or 1.4% from 2001-2002. An environmental liability of $11 million was recorded by NB Coal for treating acidic water drainage from an inactive mine, with other increases of $9 million mainly due to additions to nuclear and distribution system assets. This was offset by a $17 million decrease in nuclear amortization, as the end of service life of the Point Lepreau Generating Station for accounting purposes was extended from 2008 to 2010 based on the most recent technical evaluations.

Finance Charges



Finance Charges in millions

	2002-03	2001-02	2000-01
Finance charges	**$ 243**	$ 256	$ 355

Finance charges decreased 5.1% or $13 million to $243 million year-over-year for the following reasons:

- debt issues were refinanced at lower interest rates decreasing costs by $6 million
- the stronger Canadian dollar decreased unhedged foreign exchange costs by $4 million
- sinking fund earnings increased by $3 million

LIQUIDITY AND CAPITAL RESOURCES

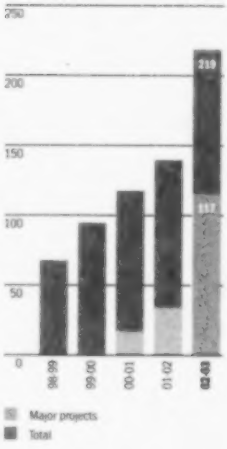
Capital Expenditures in millions

	2002-03	2001-02	2000-01
Capital expenditures	$ 219	$ 140	$ 118

Capital expenditures were $219 million in 2002-2003, an increase of $79 million or 56% from 2001-2002. The primary reason for the increase was spending on the Coleson Cove refurbishment project, which involves the installation of environmental control equipment and conversion of the oil-fired station to use lower-cost Orimulsion®. In 2002-2003, the project received environmental approval from the Provincial Government and construction began in December 2002. To date, $106 million of the $747 million project has been spent and the project is scheduled for completion by November 2004.

Other capital expenditures were associated with refurbishment of the Point Lepreau Generating Station which is planned during an 18-month outage beginning April 2007 or 2008. Projects to improve transmission and distribution infrastructure were also completed in 2002-2003.

Capital Expenditures
(in millions of dollars)



Operating Cash Flow in millions

	2002-03	2001-02	2000-01
Operating cash flow	$ 133	$ 234	$ 214

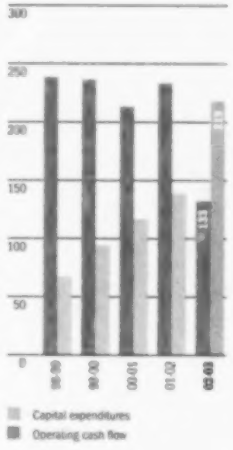
Operating cash flow was $133 million in 2002-2003, a decrease of $101 million from 2001-2002. The decrease resulted primarily from the decline in net income year-over-year.

Free Cash Inflow (Outflow) in millions

	2002-03	2001-02	2000-01
Operating cash flow	$ 133	$ 234	$ 214
Capital expenditures	(219)	(140)	(118)
Proceeds on disposal and customer contributions	5	5	2
Decrease (increase) in working capital	15	(35)	16
Used nuclear fuel trust fund payment	(20)	0	0
Free cash inflow (outflow)	$ (86)	$ 64	$ 114

Free cash outflow was $86 million in 2002-2003, a decrease of $150 million from 2001-2002. The reasons for the decline were lower net income, higher capital spending and a $20 million payment made to the used nuclear fuel trust fund.

Components of Free Cash Flow
(in millions of dollars)



Debt in millions

	2002-03	2001-02	2000-01
Free cash inflow (outflow)	**$ (86)**	$ 64	$ 114
Foreign exchange adjustment	**3**	(4)	(82)
Deferred debt costs	**(21)**	(19)	(9)
Reduction (increase) in net debt	**$ (104)**	$ 41	$ 23

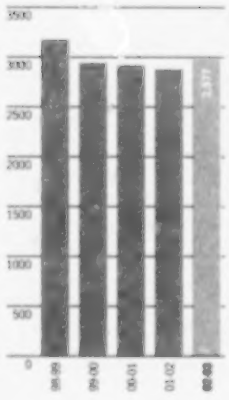
Debt increased by $104 million in 2002-2003 compared to a reduction in 2001-2002 of $41 million. The increase was due to lower net income and higher capital spending.

Total Net Debt in millions

	2002-03	2001-02	2000-01
Long-term debt, net of sinking fund investments	**$ 2,744**	$ 2,890	$ 2,869
Short-term indebtedness	**295**	0	102
Cash and short-term investments	**(62)**	(17)	(57)
Total net debt	**$ 2,977**	$ 2,873	$ 2,914

The Corporation accesses capital markets through debt issued by the Province of New Brunswick. The level of the Corporation's short-term borrowings fluctuates depending on timing of debt maturities and capital investment requirements. Five debt issues, totalling $710 million, with coupon interest rates ranging from 7.125% to 9.5%, matured in 2002-2003. These issues were replaced with new issues totalling $742 million, with a more favourable average effective interest rate of 5.225%.

Total Net Debt



RISK MANAGEMENT

The Corporation has established a process for managing risk in the following areas:

Financial Hedging

The Financial Hedging Committee is responsible for monitoring and controlling the financial risk exposure of NB Power to help ensure the predictability and sustainability of cash flow and net income. The Committee monitors the following risks:

- **Fuel Price Risk** – The Corporation has net exposure to fuel prices, notably heavy fuel oil and natural gas offset by linking of some revenues to fuel price. To reduce exposure to fuel price volatility, hedging occurs within predefined tolerance levels for predicted in-province requirements.

- **Foreign Exchange Risk** – The Corporation has a net exposure to the Canadian dollar versus the US dollar. It is sensitive to debt priced in US dollars, to fuel and purchased power being principally priced in US dollars and to revenue received in US dollars. Accordingly hedging occurs within predefined tolerance levels for both known and forecasted US dollars requirements. Effective April 2002, a strategy to hedge the majority of US debt was adopted and as of March 31, 2003, $639 million of the $650 million US debt was hedged.

- **Interest Rate Risk** – A predetermined percentage of predicted refinancing exposures is hedged to reduce the impact of adverse rate changes.

Economic/Operational Variable in millions

	Sensitivity/Variance (+/-)	Net Income Impact 2002-03
Canadian dollar (US$)	US $0.01	$ 1*
Oil (US$/bbl)	US $1/bbl	$ 3*
Natural gas (US$/mmBTU)	US $0.25/mmBTU	$ 2*
Energy exports (US$/MWH)	US $1/MWH	$ 4

* Net income impact after hedging.

Business Risk Management

NB Power has engaged Ernst & Young LLP to assist in ongoing risk assessments and risk control processes. Operational risk refreshes were completed in each business unit for 2002-2003 as well as in Business Information Systems. The status of action plans to address business unit and department risks are reported to management, the Audit Committee of the Board of Directors and the Board of Directors.

Safety

The mandate of NB Power's Health and Safety Department is to maximize healthy and safe working conditions for all employees and contractors, and to promote electrical safety to the public. Audits to measure various safety initiatives are regularly conducted, including New Brunswick Workplace Health and Safety Compensation Commission risk management audits. Regular reports on the health and safety compliance management system and the public safety program are made to the Human Resource and Corporate Governance Committee of the Board of Directors which ensures that due diligence is exercised relative to public and employee health and safety.

Environment

Each business unit is responsible to integrate the Corporation's Environmental Policy into their operations so that every activity and each employee acts in an environmentally responsible manner. The Corporate Environmental Affairs Division assists the business units in:

- integrating environmental management with operations and project planning
- acquiring regulatory approvals for facilities and new construction
- monitoring compliance with regulatory approvals and reporting to regulating agencies
- consulting with external agencies and stakeholders on environmental issues
- providing environmental information to customers, staff, regulatory authorities and the public
- monitoring and providing input on new and revised environmental standards and legislation

The Environmental Affairs Department reports on the status of the programs in place to manage environmental risks, including current and future issues. Through a combination of discussions and examinations, external auditors annually assess the completeness, valuation and disclosure of material environmental liabilities and contingencies in the Corporation's financial statements. The Corporation publishes an annual *Environmental Performance Report* available at ***www.nbpower.com***

Insurance

NB Power maintains an Insurance Department whose policies and coverage limits are consistent with electric utility industry practices in North America. Insurance coverage relates to nuclear property and liability, conventional property and liability including Auto, Environmental, Marine, and Director's and Officer's liability. An Insurance Overview report is presented annually to the Audit Committee of the Board of Directors.

May 12, 2003

NB Power's financial statements have been prepared by management, who are responsible for the integrity, accuracy and fairness of the information. The accounting principles followed in the financial statements are generally accepted in Canada. The financial information presented throughout the annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and records properly maintained. These controls and procedures include:

- system security and various financial controls
- quality standards in hiring and training of employees
- a code of conduct
- an organizational structure that provides a well-defined division of responsibilities
- performance accountability
- communication of policies and guidelines through the Corporation

Internal controls are reviewed and evaluated by audit programs which are subject to scrutiny by external auditors.

The ultimate responsibility for the financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit Committee which reviews the recommendations of internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the Audit Committee meets regularly with management and with external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that its responsibilities have been properly discharged. The Audit Committee reviews the financial statements and recommends them for approval by the Board of Directors.

The Corporation's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with auditing standards generally accepted in Canada, performing such tests and other procedures as they consider necessary to express the opinion in their Auditors' Report. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Corporation's financial reporting and the adequacy of internal control systems.

Stewart MacPherson,
President and
Chief Executive Officer (Acting)

Sharon MacFarlane,
Vice President –
Finance and Information Systems

May 12, 2003

The Honourable Marilyn Trenholme Counsell, MD
Lieutenant-Governor of New Brunswick
Fredericton, New Brunswick

Madam:

We have audited the consolidated balance sheet of New Brunswick Power Corporation as at March 31, 2003 and the consolidated statements of income and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

Year ended March 31, 2003 | in millions

	2003	2002 Restated (See Note 2)
Revenues		
Sales of power (Note 3)		
In-province	**$ 993**	$ 919
Out-of-province	**227**	359
Miscellaneous	**53**	41
	1,273	1,319
Expenses		
Purchased power	**112**	103
Fuel	**415**	389
Operation, maintenance and administration	**364**	339
Amortization and decommissioning (Note 4)	**216**	213
	1,107	1,044
Income before finance charges	**166**	275
Finance charges (Note 5)	**243**	256
Net Income (Loss) for the Year	**(77)**	19
Deficit		
Opening deficit as previously reported		(164)
Effect of change in accounting policy (Note 2)		45
Opening deficit as restated	**(100)**	(119)
Deficit end of year	**$ (177)**	$ (100)

CONSOLIDATED BALANCE SHEET

as at March 31, 2003 in millions

	2003	2002 Restated (See Note 2)
Property, Plant and Equipment (Note 6)		
Land, buildings, plant and equipment, at cost	**$ 5,607**	$ 5,458
Less: accumulated amortization	**2,725**	2,598
	2,882	2,860
Long-Term Assets		
Used nuclear fuel trust fund (Note 7)	**20**	–
Current Assets		
Cash and short-term investments (Note 8)	**62**	17
Accounts receivable	**188**	169
Materials, supplies and fuel	**98**	102
Prepaid expenses	**7**	5
	355	293
Deferred Charges		
Deferred debt costs, less amounts amortized	**56**	42
Deferred pension benefit (Note 9)	**68**	61
Other deferred charges (Note 10)	**6**	–
	130	103
	$ 3,387	$ 3,256

On behalf of New Brunswick Power Corporation

Dan Skaling
Chair

Barbara S. Bender, CA
Chair – Audit Committee

CONSOLIDATED BALANCE SHEET

as at March 31, 2003 | in millions

	2003	2002 Restated (See Note 2)
Long-Term Debt (Note 11)		
Debentures and other loans	**$ 2,999**	$ 2,530
Less: sinking funds	**387**	359
	2,612	2,171
Current Liabilities		
Short-term indebtedness (Note 12)	**295**	–
Accounts payable and accruals	**184**	149
Accrued interest	**71**	73
Current portion of long-term debt (Note 11)	**132**	719
	682	941
Deferred Liabilities		
Plant decommissioning and used nuclear fuel management (Note 13)	**225**	209
Other (Note 14)	**45**	35
	270	244
Deficit		
Deficit (Note 2)	**(177)**	(100)
	$ 3,387	$ 3,256

CONSOLIDATED STATEMENT OF CASH FLOW

Year ended March 31, 2003 | in millions

	2003	2002 Restated (See Note 2)
Net Inflow (Outflow) of Cash Related to the Following Activities:		
Operating		
Net income (loss) for the year	**$ (77)**	$ 19
Amounts charged or credited to operations not requiring a current cash payment (Note 15)	**210**	215
	133	234
Used nuclear fuel trust fund payment	**(20)**	–
Net change in non-cash working capital balances	**15**	(35)
	128	199
Financing		
Debt retirements net of sinking fund proceeds	**(829)**	(229)
Sinking fund installments and earnings	**(56)**	(56)
Proceeds from long-term debt obligations	**721**	283
Increase (decrease) in short-term indebtedness	**295**	(102)
	131	(104)
Investing		
Expenditure on property, plant and equipment	**(219)**	(140)
Proceeds on disposal and customer contributions	**5**	5
	(214)	(135)
Net Cash Inflow (Outflow)	**45**	(40)
Cash and Short-Term Investments		
Beginning of Year	**17**	57
End of Year	**$ 62**	$ 17

1. Significant Accounting Policies

The New Brunswick Power Corporation ("the Corporation"), established in 1920 as a Crown Corporation of the Province of New Brunswick by enactment of the New Brunswick Electric Power Act, has a corporate mission to provide for the continuous supply of energy adequate for the needs and future development of the Province and to promote economy and efficiency in the generation, distribution, supply, sale and use of power.

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The financial statements include the accounts of the Corporation and those of its wholly owned subsidiary, NB Coal Limited (NB Coal).

a. Regulation

The Corporation is regulated under a system whereby annual average rate increases greater than three percent, or the Consumer Price Index, whichever is higher, require regulatory review by the Board of Commissioners of Public Utilities of the Province of New Brunswick (Public Utilities Board). The Corporation must also apply to the Public Utilities Board before making any expenditure greater that $75 million in relation to upgrading, maintaining or decommissioning a generating facility.

b. Property, plant and equipment

The cost of additions to property, plant and equipment is the original cost of contracted services, direct labour and material, interest on funds used during construction and indirect charges for administration and other expenses, less credits for the value of power generated during commissioning. Property, plant and equipment also includes the present value of asset retirement obligations related to the disposal of used nuclear fuel and decommissioning of the nuclear and thermal generating stations.

Interest during construction is capitalized monthly based on the cost of long-term borrowings. When significant assets are removed from service for extended periods of time for refurbishment, interest during construction is charged based on the net book value of the asset concerned.

Contributions in aid of construction which include amounts received from customers as well as research and development grants in respect of new facilities, are netted against the cost of related assets. Amounts received from customers are being amortized over the estimated service lives of the related assets.

The cost of distribution assets retired, net of dismantlement and salvage, is charged to accumulated amortization. For all other property, plant and equipment dispositions, the cost and accumulated amortization is removed from the accounts with the gain or loss on disposal being reflected in income.

Amortization is provided for all assets sufficient to amortize the cost of such assets, less estimated salvage value, over their estimated service lives. The estimated service lives of fixed assets are periodically reviewed and any changes are applied prospectively. Amortization is suspended when significant assets are removed from service for extended periods for refurbishment. Amortization is provided on certain mining equipment on an increasing charge basis, the amortization amount being based on the amount of related debt retirement required during the year. All other assets are amortized on a straight-line basis. Amortization is provided on the net cost of property, plant and equipment in respect of which grants have been provided and on amounts contributed by customers.

The main categories of property, plant and equipment have been amortized based on the following average estimated service lives:

Assets	Years
Hydro Generating Stations	70
Thermal Generating Stations	35
Nuclear Generating Station	27*
Combustion Turbine Generating Stations	25
Terminals and Substations	40
Transmission System	35 - 55
Distribution System	10 - 35
Buildings	
General	40
Head Office	50
Communications and Computer Systems	3 - 15
Mining Equipment	20 - 35
Motor Vehicles	4 - 10

* Effective April 1, 2002, the service life of the nuclear generating station was extended from 25 years to 27 years.

c. Cash and short-term investments

Cash and short-term investments, which are stated at cost, consist of balances with banks and investments in money market instruments.

d. Inventories

Inventories of materials and supplies, and fuel, other than nuclear fuel, are valued at average cost. Nuclear fuel is valued at cost using the first-in, first-out method.

e. Deferred debt costs

The Corporation amortizes debenture discounts and premiums, the expenses of issues, and the deferred interest related to debt refinancing, over the lives of the issues to which they pertain.

f. Foreign exchange transactions

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian (Cdn) dollars at rates of exchange prevailing at the balance sheet date except where such items have been hedged by the acquisition of a forward exchange contract, in which case the rate established by the terms of the contract is used in the translation. Exchange gains and losses resulting from foreign currency translation are reflected in income.

g. Long-term debt

Long-term debt is recorded on the balance sheet at cost. The estimated fair value of long-term debt is disclosed in the notes to the financial statements using market values or estimates of market values based on debt with similar terms and maturities. The estimated fair value does not include costs that would be incurred to exchange or settle the debt.

h. Plant decommissioning and used nuclear fuel management

In order to provide for the estimated future costs of permanently disposing of used nuclear fuel and decommissioning the nuclear and thermal generating stations to return the sites to a state of unrestricted use, the Corporation recognizes these liabilities taking into account the time value of money. The Corporation does not provide for the estimated future costs of decommissioning hydro generating stations as there is currently no intention to decommission these assets.

The following costs have been recognized as a liability as at March 31, 2003:

- The estimated present value of the costs of decommissioning the nuclear and thermal generating stations at the end of their useful lives
- The estimated present value of the fixed cost portion of used nuclear fuel management activities that are required regardless of the volume of fuel consumed
- The estimated present value of the variable cost portion of used nuclear fuel management activities to take into account actual fuel volumes incurred up to March 31, 2003

The liability for used nuclear fuel management is increased for fuel generated each year with the corresponding amounts charged to operations through fuel expense.

The liabilities for nuclear and thermal plant decommissioning and used nuclear fuel management are increased for the passage of time by calculating accretion (interest) on the liabilities. The accretion expense is calculated using the Corporation's credit adjusted risk free rate and is included with amortization expense.

The calculations of the anticipated future costs are based on detailed studies which take into account various assumptions regarding the method and timing of dismantlement of the nuclear and thermal generating stations, the cost of transportation of nuclear material to permanent disposal facilities, and estimates of inflation rates in the future.

Expenditures incurred on a current basis relating to used nuclear fuel management and plant decommissioning are charged against the deferred liability accounts.

In view of potential developments in the technology of decommissioning and used nuclear fuel management, and because of the various assumptions and estimates inherent in the calculations, the Corporation reviews such calculations periodically.

i. Pension plans

Corporation employees are members of the Province of New Brunswick Public Service Superannuation Plan. This multi-employer plan provides pensions based on length of service and the average of the highest five consecutive years of earnings. The Corporation and its employees make contributions to the plan as prescribed in the Public Service Superannuation Act and its regulations. NB Coal maintains a private contributory defined benefit pension plan for its employees.

Under both plans, pension costs are actuarially determined using the projected benefit method, pro-rated on services and management's best estimate assumptions.

Experience gains or losses in excess of 10% of the greater of the pension assets and pension obligations are amortized over the expected average remaining service life of the employee group. The transitional asset (fair market value of the plan assets less the accrued benefit obligation as determined at April 1, 2000), is amortized over the average remaining service life of the employee group.

j. Retirement allowance

The Corporation has a retirement allowance program for employees that provides a lump-sum payment equal to one week of pay for each full year of employment to a maximum of 26 weeks of pay. The actuarial present value of accrued retirement allowance obligations for past service is amortized on a straight-line basis over the expected average remaining service life of the employee group.

k. Early retirement programs

The total cost of such programs is charged to income in the year the program is initiated, irrespective of when payments are actually made.

l. Revenue

Billings to residential and general service customers are rendered monthly on a cyclical basis. All other customers are billed at the end of each month. Revenue in respect of items not billed at the end of a fiscal period is estimated and accrued.

m. Derivative financial instruments

The Corporation periodically uses derivative financial instruments to manage the following risks:

- Interest rates
- Foreign currency
- Electricity, oil and natural gas prices

In accordance with its hedging policies and objectives, the Corporation only enters into derivative financial instruments to manage underlying exposures. The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its hedging objectives and strategy underlying various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific forecasted transactions. The Corporation assesses both at the inception and on an ongoing basis whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items and therefore qualify for hedge accounting.

Interest Rates

The Corporation enters into interest rate swaps to hedge against the interest rate exposure associated with future refinancing of debt. The gains or losses on these interest rate swaps that meet the hedge criteria are accounted for on a settlement basis and therefore are recognized only when the debt is refinanced. The resulting gains or losses are deferred and amortized over the new debt term. In the event that the interest rate swaps do not meet the hedge criteria, the derivative is carried at fair value, and changes in fair value would be recognized immediately in income. Gains or losses on interest rate swaps that are terminated would be recognized under current or deferred assets or liabilities on the balance sheet, and would be amortized over the existing debt term.

Foreign Currency

The Corporation enters into Canadian dollar – US dollar forward contracts or Canadian dollar – US dollar cross currency interest rate swaps to hedge exchange risk related to forecasted US dollar purchases, and interest and principal obligations on US dollar denominated long-term debt.

Gains or losses on forward contracts hedging US dollar purchases that meet the hedge criteria are recognized through income at the settlement date. In the event that the hedge does not meet the hedge criteria, the derivative is carried at fair value, and changes in fair value would be recognized immediately in income.

Gains or losses on forward contracts and cross currency interest rate swaps hedging US dollar interest and principal repayments that meet the hedging criteria are recognized through income at the settlement date. Interest is accrued at the hedged rate. Hedged outstanding US dollar denominated debt is translated to Canadian dollars at the hedged rate. In the event that a cross currency interest rate swap is terminated, the realized gain or loss would be recognized under current or deferred assets or liabilities on the balance sheet, and amortized over the debt term.

Also, the Corporation has assigned certain US dollar denominated sinking fund assets to provide a hedge against US$ 239 million in outstanding debentures.

Electricity, Oil and Natural Gas Prices

The Corporation periodically enters into electricity swaps to hedge the exposure related to changes in electricity prices on committed export sales. The Corporation also enters into oil and natural gas swaps to hedge the anticipated exposure related to changes in the cost of heavy fuel oil in the operations of its generating stations and on a purchase contract based on natural gas prices.

Gains or losses on these swaps that meet the hedge criteria are recognized at the settlement dates of the swaps. In the event that these swaps do not meet the hedge criteria or the forecasted purchase or sale is no longer probable of occurring, the derivative is carried at fair value, and changes in fair value would be recognized immediately in income.

n. Use of estimates

General

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from the estimates.

2. Change in Accounting Policy

Effective April 1, 2002, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) standard for asset retirement obligations. This standard applies to the plant decommissioning and used nuclear fuel management liabilities recorded by the Corporation. The new standard requires the recognition of the net present value of these liabilities when incurred. Income and retained earnings from prior years have been restated to reflect the new standard. Adoption of the new standard had an immaterial impact on net income in 2003 and 2002. Opening retained earnings in 2003 was increased by $45 million (2002 – $45 million). After restatement, in 2002, property, plant and equipment increased by $20 million and plant decommissioning and used nuclear fuel management liability decreased by $25 million.

3. Sales

a) Power sales to the Province of New Brunswick and other government owned organizations are recorded at normal commercial rates.
b) Out-of-province sales include $128 million (2002 – $195 million) to utilities in the United States.

4. Amortization and Decommissioning

	2003	2002
Amortization expense	$ 190	$ 199
Charges for decommissioning	26	14
	$ 216	$ 213

The change in service life of the Point Lepreau generating station from 25 to 27 years decreased amortization expense in 2003 by $17 million. Also during the year an environmental liability to treat acidic water drainage from an inactive mine was established by NB Coal, increasing decommissioning expense by $11 million.

5. Finance Charges

	2003	2002
Interest expense	$ 243	$ 247
Less: Income from sinking funds and other investments	(27)	(24)
	216	223
Provincial government guarantee fee	18	19
Amortization of deferred debt costs	6	4
Unrealized foreign exchange (gains) losses	(3)	4
Realized foreign exchange losses	15	11
	252	261
Less: Interest capitalized	(9)	(5)
	$ 243	$ 256

Interest paid on debt during the year was $257 million (2002 – $263 million). Interest received on investments during the year was $23 million (2002 – $22 million).

6. Property, Plant and Equipment

	2003 Cost	2003 Accumulated amortization	2002 Cost	2002 Accumulated amortization
Power generating stations	$ 3,731	$ 1,926	$ 3,725	$ 1,825
Transmission system	278	126	272	121
Terminals and substations	417	213	408	203
Distribution system	719	306	693	288
Buildings and properties	58	29	58	27
Communications and computer systems	79	34	62	26
Mining equipment and related assets	53	49	74	65
Motor vehicles	50	30	48	31
Miscellaneous assets	17	12	20	12
Construction-in-progress*	205	–	98	–
	$ 5,607	$ 2,725	$ 5,458	$ 2,598

* Construction-in-progress at March 31, 2003 includes $59 million of expenditures on the Point Lepreau refurbishment project. The forcasted total project spending of $850 million has not received final approval.

7. Used Nuclear Fuel Trust Fund

The federal Nuclear Fuel Waste Act (NFWA), came into force in November 2002. The NFWA requires major owners of nuclear waste in Canada to establish trust funds and make annual payments to these funds to finance the long-term management of nuclear fuel waste. Pursuant to the NFWA, the Corporation established and contributed $20 million to its Nuclear Fuel Waste Trust fund in 2002. The NFWA requires the Corporation to contribute $4 million annually for the next three years (2003 to 2005) to its trust fund.

8. Cash and Short-Term Investments

	2003	2002
Cash	$ 60	$ 13
Short-term investments	2	4
	$ 62	$ 17

9. Deferred Pension Benefit

Corporation employees are members of the Province of New Brunswick Public Service Superannuation Plan (Public Service Plan) as described in Note 1i. Actuarial valuations are prepared periodically to determine the costs of the pension benefits and the appropriate amounts of contributions to the fund. The latest actuarial valuation completed on the Public Service Plan was April 1, 2002.

The actuarial method used incorporates management's or the plan owner's best estimate assumptions to determine the present value of accrued pension benefit obligations based on projections of salaries and wages to normal retirement dates. The pension calculations were completed using a discount rate of 6.5% on the obligation and a rate of return of 7.5% on assets. Salary increases are assumed to be 2.5% and inflation is assumed to be 2%.

The status of the costs and obligations of the Corporation's share of the Public Service Plan and NB Coal's private plan as at March 31, 2003 was as follows:

	2003	2002
Pension fund assets (market value)	$ 621	$ 678
Accrued pension obligations	$ 756	$ 676
Pension surplus (deficit)	$ (135)	$ 2
Cost of benefits for the year	$ 12	$ 10
Interest cost on accrued benefits	45	43
Interest on pension fund assets	(51)	(49)
Amortization of transitional surplus	(3)	(4)
Amortization of gains/losses	2	2
Pension expense	$ 5	$ 2

Employees contributed $10 million (2002 – $9 million) and the Corporation contributed $12 million to the plan (2002 – $11 million) during the year. Benefit payments from the plan to retirees were $28 million (2002 – $29 million). Total contributions to date in excess of pension expense in the amount of $68 million (2002 – $61 million) have been recorded as an asset under deferred charges.

10. Other Deferred Charges

Other deferred charges include a $5 million prepayment for handling costs for Orimulsion® fuel delivery at Coleson Cove and a $1 million investment in a transmission project. The fuel handling prepayment will be charged to fuel expense based on volume of fuel delivered.

11. Long-Term Debt

	2003	2002
Debentures guaranteed by the Province of New Brunswick	$ 125	$ 125
Debentures and notes held by the Province of New Brunswick	2,998	3,114
Other loans	8	10
	3,131	3,249
Less: Payments due within one year	132	719
	$ 2,999	$ 2,530

Debentures and notes

Date of maturity	Average Interest Rate	CDN	US	2003	2002
Years ending:					
March 31, 2003	8.0%				685
March 31, 2004	7.5%	100	–	100	100
March 31, 2005	–	–	–	–	–
March 31, 2006	5.9%	400	–	400	200
March 31, 2007	6.8%	70	–	70	70
March 31, 2008	4.8%	–	317	317	–
1-5 Years	5.8%	570	317	887	1,055
6-10 years	7.5%	1,300	159	1,459	975
11-30 Years	8.4%	250	527	777	1,209
Debentures and notes		$2,120	$1,003	$3,123	$3,239
Loans payable in annual installments of principal and interest at rates varying from 4.5% to 8.25% per annum to the year 2011.				8	10
Total long-term debt				**$3,131**	$3,249

The US$ debenture balance outstanding at March 31, 2003 is US$ 650 million. Substantially all of this foreign debt is hedged as described below.

The weighted average coupon interest rate on all debentures and notes outstanding at March 31, 2003 is 7.24% (2002 – 8.06%).

Long-term debt payments

Long-term debt maturities and sinking fund requirements in respect of debt outstanding at March 31, 2003 are as follows for the five years ending March 31, 2008:

Debt maturities and sinking fund obligations	in millions $
Year ending March 31, 2004	132
Year ending March 31, 2005	31
Year ending March 31, 2006	431
Year ending March 31, 2007	97
Year ending March 31, 2008	341

Exchange rates in effect at March 31, 2003 or the applicable hedge rates are used for debt denominated in foreign currencies.

Cross-currency interest rate swaps

a) 7.625% Debentures, due February 15, 2013 – US $100 million
With respect to this debt, the Corporation has entered into a cross-currency interest rate swap transaction with Canadian banks that results in an effective fixed interest rate of 7.75125% on CDN $159 million.

b) 6.75% Debentures, due August 15, 2013 – US $100 million
With respect to this debt, the Corporation has entered into a cross-currency interest rate swap transaction with Canadian banks that results in an effective fixed interest rate of 6.80025% on CDN $159 million.

c) 3.50% Debentures, due October 23, 2007 – US $200 million
With respect to this debt, the Corporation has entered into a cross-currency interest rate swap transaction with the Province of New Brunswick that results in an effective fixed interest rate of 4.7925% on CDN $317 million.

Sinking funds

The Minister of Finance of the Province of New Brunswick, as Trustee for the Corporation, maintains a sinking fund for all debenture issues where required. Sinking fund earnings are reflected in the Corporation's income. Corporation debentures held in the fund are cancelled at maturity or on the debenture call date. Sinking fund investments are deducted from long-term debt except where the legally enforceable right to offset does not exist. The amount not offset and reclassified as investments is immaterial in 2003 and 2002. The Corporation has assigned certain US denominated sinking fund assets to provide a hedge against US $239 million in outstanding debentures.

Guarantee fee

The Corporation pays an annual guarantee fee to the Province of New Brunswick, amounting to 0.6489% of the total of long-term debt guaranteed by the Province, debentures held by the Province and short-term indebtedness to the Province, less the balance held in sinking funds, measured as at the previous year end.

12. Short-Term Indebtedness

The Corporation borrows funds for temporary purposes from the Province of New Brunswick. The short-term borrowings from the Province of New Brunswick are $295 million at March 31, 2003 (2002 – $0 million).

The Corporation may also borrow from banks from time to time. Such borrowings are payable on demand. The Corporation has bank lines of credit, guaranteed by the Province of New Brunswick, for short-term borrowings totaling $89 million.

NB Coal has bank lines of credit totaling $4 million, which are secured by a general assignment of book debts.

13. Plant Decommissioning and Used Nuclear Fuel Management

The Corporation's nuclear generating station produces nuclear waste in the form of radioactive nuclear fuel bundles. The used nuclear fuel will need to be disposed of and the nuclear station will need to be dismantled and decommissioned at the end of its service life.

The Corporation is also required to decommission its thermal generating stations at the end of their useful lives.

The liability for plant decommissioning and used nuclear fuel management consists of the following.

	2003	2002
Used Nuclear Fuel Management		
Balance, beginning of year	$ 56	$ 54
Add: Liabilities incurred	1	1
Add: Accretion expense	4	4
Less: Expenditures	–	(3)
Balance, end of year	61	56
Nuclear Decommissioning		
Balance, beginning of year	120	112
Add: Liabilities incurred	–	–
Add: Accretion expense	9	8
Less: Expenditures	–	–
Balance, end of year	129	120
Thermal Decommissioning		
Balance, beginning of year	33	31
Add: Liabilities incurred	–	–
Add: Accretion expense	2	2
Less: Expenditures	–	–
Balance, end of year	35	33
Total plant decommissioning and used nuclear fuel management liability at end of year	$ 225	$ 209

Liability for Used Nuclear Fuel Management

The liability for used nuclear fuel management costs represents the cost of managing the radioactive used nuclear fuel bundles generated by the nuclear station. The key assumptions on which the liability is based are:

- The total undiscounted amount of the estimated cash flows required to settle the liability is $445 million.
- The management of the used nuclear fuel will require cash expenditures until 2047 to settle the liability.
- The credit adjusted risk free rate at which the estimated cash flows have been discounted is 7.1%.

Liability for Nuclear Decommissioning

The liability for nuclear decommissioning represents the costs of decommissioning the nuclear generating station after the end of its service life. The key assumptions on which the liability is based are:

- The total undiscounted amount of the estimated cash flows required to settle the liability is $468 million.
- The decommissioning of the nuclear generating station will require cash expenditures until 2052 to settle the liability.
- The credit adjusted risk free rate at which the estimated cash flows have been discounted is 7.1%.

Liability for Thermal Decommissioning

The liability for thermal decommissioning represents the costs of decommissioning the thermal generating stations after the end of their service lives. The key assumptions on which the liability is based are:

- The total undiscounted amount of the estimated cash flows required to settle the liability is $93 million.
- The decommissioning of the thermal generating stations will require cash expenditures until 2033 to settle the liability.
- The credit adjusted risk free rate at which the estimated cash flows have been discounted is 7.1%.

14. Deferred Liabilities – Other

	2003	2002
Early retirement programs	$ 24	$ 27
Retirement allowance program	13	10
Other future employee benefits payable	1	–
NB Coal environmental liability	11	–
	49	37
Less: Amounts due within one year	4	2
	$ 45	$ 35

Retirement allowance liability

The Corporation has a retirement allowance program for employees as described in Note 1j. Actuarial calculations are prepared to determine the amount of the Corporation's obligations for retirement allowances. The actuarial method used incorporates management's best estimate assumptions to determine the present value of the accrued retirement allowance obligation based on projections of salaries and wages to normal retirement dates. The interest rate used in the calculation of this obligation was 6.5% and the assumed rate of salary escalation was 2.5%. The latest actuarial calculation was done as at April 1, 2002.

The retirement allowance obligation as at March 31, 2003 is $27 million (2002 – $24 million). The retirement allowance expense for the year ended March 31, 2003 was $4 million (2002 – $4 million). The cumulative amount expensed in excess of amounts paid out under the retirement allowance program has been set up as a deferred liability.

NB Coal environmental liability

During the year, the Corporation and its subsidiary, NB Coal, developed a long-term plan to treat acidic water drainage from an inactive mine. The plan involves building a permanent water treatment facility which will be used to treat the site for as long as required. During the year, NB Coal recognized an environmental liability equal to the net present value of the expected future costs.

15. Amounts Charged or Credited to Operations Not Requiring a Current Cash Payment

	2003	2002
Amortization and decommissioning	$ 216	$ 213
Amortization of deferred debt costs	6	4
Unrealized foreign exchange (gains) losses	(3)	4
Disposal of nuclear fuel consumed during the year	1	1
Retirement expenses less related cash payments	3	2
Reduction in pension expense	(7)	(9)
Other deferred charges	(6)	–
	$ 210	$ 215

16. FINANCIAL INSTRUMENTS

Foreign exchange risk management

At March 31, 2003, the Corporation had outstanding forward exchange contracts representing a net commitment to purchase US$263 million (2002 – US$ 355 million) maturing over the next eighteen months. The weighted average rate of exchange protected by these contracts is $1.5554.

The fair value of forward exchange contracts as at March 31, 2003 is $409 million (2002 – $568 million). If the contracts had been closed out at March 31, 2003 the loss would have been $17 million (2002 – gain of $12 million).

At March 31, 2003, the Corporation had outstanding forward cross-currency interest rate swaps effectively hedging principal and interest payments associated with US $400 million debt. The debt was converted at a weighted-average exchange rate of 1.5883 and interest rate of 6.04%. If the swaps had been closed out at March 31, 2003 the loss would have been $21 million.

The Corporation has hedged $239 million of its remaining $250 million US dollar denominated debt with certain US denominated sinking fund assets.

Fuel price risk management

At March 31, 2003, the Corporation had outstanding heavy fuel oil swap contracts totaling $84 million (2002 – $79 million) maturing over the next eighteen months. The fair market value of the heavy fuel swap agreements as at March 31, 2003 is $92 million (2002 – $89 million).

At March 31, 2003, the Corporation had outstanding natural gas swap contracts totaling $8 million (2002 – $15 million) maturing over the next twelve months. The fair market value of the natural gas swap agreements as at March 31, 2003 is $11 million (2002 – $19 million).

Under the agreements, the Corporation exchanges monthly payments based on the differential between a fixed price and a monthly cumulative floating price for the associated fuel. The differential to be paid or received is reflected in the cost of fuel.

If the outstanding swap contracts for which gains and losses accrue to the Corporation had been closed out at March 31, 2003, the gain would have been $8 million for heavy fuel oil swaps (2002 – gain of $10 million), and $3 million for natural gas swaps (2002 – gain of $4 million).

Electricity risk management

At March 31, 2003, the Corporation had no forward dated electricity swap contracts outstanding. (2002 – $8 million). The fair market value of the electricity swap agreements as at March 31, 2002 was $9 million with an unrecognized loss of $1 million.

Interest rate risk management

At March 31, 2003, the Corporation had no forward dated interest rate swap agreements outstanding. The agreements at March 31, 2002 had a notional principal of $225 million with an unrecognized loss of $4 million.

Fair value of debt and sinking funds

The estimated fair value of long-term debt as at March 31, 2003 is $3,639 million compared to a book value of $3,131 million (2002 – $3,685 million compared to $3,249 million). The estimated fair value of all sinking funds as at March 31, 2003 is $420 million compared to a book value of $387 million (2002 – $381 million compared to $359 million).

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Corporation conducts a thorough assessment of debtors prior to granting credit and actively monitors the financial health of its debtors on an on-going basis. The estimated fair value of credit risk is deemed to be the sum of accounts receivable net of applicable reserves and the total gross unrealized gains for financial instruments. Accounts receivable, net of applicable reserves is $188 million (2002 – $169 million). Foreign exchange, interest rate and fuel price risk management represents a gross unrealized loss, net of gains, of $27 million (2002 – $21 million gain).

17. COMMITMENTS

Coleson Cove Generating Station Refurbishment

The Corporation received environmental approvals and began construction in December 2002 to refurbish the 998 megawatt Coleson Cove generating station and convert it to burn Orimulsion® fuel. Expenditures to March 31, 2003 amounted to $106 million. The estimated total cost of the refurbishment is $747 million. The refurbishment and conversion is expected to be completed by November 2004.

Belledune Wharf

The Corporation has entered into an operating lease expiring in 2013, with a twenty year renewal option, for the port facility at Belledune. This lease provides for annual charges of approximately $5 million.

Courtenay Bay Generating Station

The Corporation has entered into a lease agreement for site facilities, expiring in 2021, with a five year option to extend. The tenant has repowered an existing 100 MW unit to a 280 MW combined cycle natural gas unit which began commercial operation effective September 2001.

The Corporation has also entered into a related power purchase and transmission access agreement expiring in 2021, with a five year option to extend, with the same third party. The Corporation will purchase all the electrical energy produced by the re-powered 280 MW combined cycle natural gas unit during the winter period, November 1 to March 31, and from time to time, some or all of the electrical energy produced during the summer period.

Gas Transportation Agreement

The Corporation has entered into an agreement expiring in 2015, for firm natural gas transportation service to the re-powered Courtenay Bay Generating Station. The cost of transportation will be recovered from the tenant referred to in the lease of the generating station.

Orimulsion® Fuel Supply

The Corporation has entered into a twenty year agreement to purchase Orimulsion® fuel for the Dalhousie generating station from 1990, continuing year to year thereafter unless terminated by either party. Also, the Corporation has signed a memorandum of understanding for the purchase of Orimulsion® fuel for the Coleson Cove generating station for a twenty year term, beginning in 2004.

Fuel Off Loading and Delivery

The Corporation has signed a memorandum of understanding for the use of facilities to off load fuel from marine tankers, provide temporary storage, and deliver the fuel by pipeline to the Coleson Cove generating station for a twenty year term.

Computer Equipment

The Corporation has entered into operating leases relating to computer equipment. The future minimum lease payments under these leases are as follows:

	2003	2002
2004	$ 4	$ 4
2005	3	3
2006	1	2
	$ 8	$ 9

18. CONTINGENCY

The Canadian government has ratified the Kyoto Protocol. The Corporation is not able to estimate the full impact the ratification will have on its future business, as the provincial and federal governments have not finalised their implementation plans.

19. SUBSEQUENT EVENTS

Restructuring the Corporation

In April, 2003 the Province of New Brunswick enacted the "Electricity Act". This Act provides for:

- The restructuring of New Brunswick Power Corporation into five crown corporations:
  - New Brunswick Power Holding Corporation
  - New Brunswick Power Nuclear Corporation
  - New Brunswick Power Generation Corporation
  - New Brunswick Power Transmission Corporation
  - New Brunswick Power Distribution and Customer Service Corporation
- The establishment of a New Brunswick System Operator. It will be a not-for-profit organization whose primary objective is to independently direct the operation and maintain the adequacy and reliability of the transmission grid.
- The establishment of the New Brunswick Electric Finance Corporation. This Corporation will facilitate the conversion of New Brunswick Power Corporation's debt to appropriate levels of debt in the operating companies through a debt equity swap, and will assume and reduce the remaining portion of the Corporation's debt. Payments from the operating companies to the Electric Finance Corporation, in the form of dividends and special payments, will be used to service and reduce the debt assumed by the Electric Finance Corporation.

The Act also allows for the Province of New Brunswick to:

- Cause the Generation Corporation to sell all or part of its assets comprising the Coleson Cove generating station, or enter into an agreement including a trust, lease, partnership, joint venture or operating agreement, with respect to the Coleson Cove generating station.
- Cause the Nuclear Corporation to enter into an arrangement including a trust, lease, partnership, joint venture or operating agreement with respect to the Point Lepreau nuclear generation facility.
- Allow the System Operator to establish the electricity market rules for New Brunswick
- Effect the transferring of officers, employees, assets, liabilities, rights and obligations of New Brunswick Power Corporation to the New Brunswick Power Holding Corporation, the four operating companies, the System Operator and the Electric Finance Corporation. The transfers of assets, liabilities, rights and obligations will be done at their book values.

The Act received royal assent on April 11, 2003 and is expected to be proclaimed some time during 2003-04.

The operating companies will be expected to:

- Operate on a commercial basis, achieving return on equity targets
- Borrow without a provincial guarantee, except for the Nuclear Corporation which will remain an agent of the Crown
- Make payments in lieu of taxes and dividends

20. COMPARATIVE FIGURES

Certain 2002 figures have been reclassified to conform with 2003 financial statement presentation.

Statement of Generation (millions of KWh)

	2002-03	2001-02	2000-01	1999-00	1998-99
Hydro	**2,057**	1,910	2,373	3,018	2,696
Thermal	**11,510**	12,206	12,507	9,763	12,430
Nuclear	**4,284**	4,938	3,899	4,323	4,970
Combustion turbine	**57**	13	39	19	3
Purchases	**1,752**	1,945	2,092	4,712	2,568
Gross Generation and Purchases	**19,660**	21,012	20,910	21,835	22,667
Station service	**1,044**	1,121	1,086	985	1,092
Net Generation and Purchases	**18,616**	19,891	19,824	20,850	21,575
Losses – transformer and transmission	**648**	498	603	688	663
Total Energy Available for Distribution	**17,968**	19,393	19,221	20,162	20,912

Statement of Sales (millions of KWh)

	2002-03	2001-02	2000-01	1999-00	1998-99
Wholesale	**1,218**	1,132	1,171	1,126	1,069
Industrial	**6,156**	6,007	6,068	5,924	5,985
General service	**2,218**	2,119	2,111	2,093	2,036
Residential	**4,874**	4,463	4,587	4,371	4,387
Street lights	**74**	74	74	73	72
Total In-Province Sales	**14,540**	13,795	14,011	13,587	13,549
Interconnections	**3,069**	5,264	4,878	6,255	7,048
Total Sales	**17,609**	19,059	18,889	19,842	20,597
Distribution losses	**359**	334	332	320	315
Total Energy Distributed and Sold	**17,968**	19,393	19,221	20,162	20,912

Statement of Sales (in millions)

	2002-03	2001-02	2000-01	1999-00	1998-99
Wholesale	**$ 77**	$ 70	$ 73	$ 71	$ 68
Industrial	**316**	294	298	288	283
General service	**190**	180	178	176	170
Residential	**393**	358	364	340	335
Street lights	**17**	17	18	13	16
Total In-Province Sales	**993**	919	931	888	872
Interconnections	**227**	359	332	329	303
Sales of Power	**1,220**	1,278	1,263	1,217	1,175
Miscellaneous	**53**	41	46	31	29
Total Revenue	**$ 1,273**	$ 1,319	$ 1,309	$ 1,248	$ 1,204

Statement of In-Province Generation (millions of KWh)

	2002-03	2001-02	2000-01	1999-00	1998-99
Hydro	**2,057**	1,910	2,373	3,019	2,696
Coal and petroleum coke	**3,886**	3,500	3,762	3,677	3,065
Heavy fuel oil	**3,235**	2,706	3,232	1,796	3,114
Orimulsion*	**1,892**	1,618	1,761	1,830	1,509
Nuclear	**4,101**	4,638	3,567	3,980	4,558
Combustion turbine	**24**	4	12	4	1
Purchases	**1,405**	1,344	1,302	1,249	574
Gross Generation and Purchases	**16,600**	15,720	16,009	15,555	15,517
Station service	**1,053**	1,093	1,065	958	989
Net Generation and Purchases	**15,547**	14,627	14,944	14,597	14,528
Losses – transformer and transmission	**648**	498	603	688	663
Total Energy Available for Distribution	**14,899**	14,129	14,341	13,909	13,865

Peak Demand and Capacity (MW)

	2002-03	2001-02	2000-01	1999-00	1998-99
System net generating capacity	**3,770**	3,769	3,774	4,119	4,119
Firm capacity purchases	**505**	499	347	349	349
Total Available Resources	**4,275**	4,268	4,121	4,468	4,468
In-province system net peak demand	**3,089**	2,768	2,893	2,856	2,786
Firm exports	**590**	863	464	427	531
Operating reserve	**665**	668	668	612	674
Total Requirement	**4,344**	4,299	4,025	3,895	3,991

Operating Statistics March 31st

	2002-03	2001-02	2000-01	1999-00	1998-99
Transmission lines – km	**6,696**	6,665	6,706	6,660	6,660
Distribution lines – km	**26,449**	26,316	25,753	25,621	25,602
Residential customers	**290,310**	286,464	283,743	280,513	276,360
Industrial customers	**1,842**	1,854	1,851	1,847	1,834
General service customers	**23,963**	23,635	23,535	23,345	23,103
Non-metered customers	**2,620**	2,710	2,901	3,250	2,116
Direct customers	**318,735**	314,663	312,030	308,955	303,413
Indirect customers	**41,502**	41,777	41,694	41,678	40,673
Total Customers	**360,237**	356,440	353,724	350,633	344,086
Employees – regular	**2,545**	2,489	2,428	2,445	2,463
Employees – temporary	**141**	131	77	84	69
Employees – NB Coal Limited	**76**	76	101	102	103

Income Statement Summary (in millions)

	2002-03	2001-02	2000-01	1999-00	1998-99
In-province revenue	**$ 993**	$ 919	$ 931	$ 888	$ 872
Out-of-province revenue	**227**	359	332	329	303
Miscellaneous	**53**	41	46	31	29
Total fuel and purchases	**527**	492	504	398	377
Operations, maintenance and administration	**364**	339	312	317	279
Amortization and decommissioning	**216**	213	218	202	200
Finance charges	**243**	256	355	268	375
Income (loss) before transfers and write-off	**(77)**	19	(80)	63	(27)
Fuel channel account transfer	**–**	–	–	–	9
Income (loss) before write-off	**(77)**	19	(80)	63	(18)
Write off of deferred cost	**–**	–	–	0	450
Net income (loss)	**$ (77)**	$ 19	$ (80)	$ 63	$ (468)
Interest coverage ratio[1]	**.66x**	1.08x	.68x	1.22x	.90x

1 Interest coverage ratio = [net income before transfers and write-off + (interest expense+realized foreign exchange – income from sinking funds and other investments)] / (interest expense+realized foreign exchange – income from sinking funds and other investments)

Balance Sheet Information March 31st (in millions)

	2002-03	2001-02	2000-01	1999-00	1998-99
Assets					
Property, plant and equipment	**$ 2,882**	$ 2,860	$ 2,928	$ 3,020	$ 3,156
Long-term assets	**20**	–	–	17	56
Current assets	**355**	293	313	285	275
Deferred charges	**130**	103	79	60	50
Total Assets	**$ 3,387**	$ 3,256	$ 3,320	$ 3,382	$ 3,537
Liabilities and Deficit					
Long-term debt	**$ 2,612**	$ 2,171	$ 2,624	$ 2,578	$ 2,945
Current liabilities	**682**	941	584	628	501
Deferred liabilities	**270**	244	231	215	194
Deficit	**(177)**	(100)	(119)	(39)	(103)
Total Liabilities and Deficit	**$ 3,387**	$ 3,256	$ 3,320	$ 3,382	$ 3,537
Debt ratio[2]	**106%**	103%	104%	101%	103%

2 Debt ratio = (debt) / (debt + equity), where debt = (long-term debt + short-term indebtedness + plant decommissioning and used nuclear fuel management – cash and short-term investments – sinking fund investments)

Financial Statistics (in millions)

	2002-03	2001-02	2000-01	1999-00	1998-99
Finance Costs					
Interest expense	**$ 243**	$ 247	$ 267	$ 293	$ 306
Income from sinking fund and other investments	**(27)**	(24)	(25)	(28)	(35)
Provincial Government guarantee fee	**18**	19	19	20	21
Amortization of deferred debt costs	**6**	4	4	5	4
Foreign exchange (gain) or loss	**12**	15	94	(20)	80
Interest capitalized	**(9)**	(5)	(4)	(2)	(1)
Net Financial Expense	**$ 243**	$ 256	$ 355	$ 268	$ 375
Other Statistics					
Rate increase*	**2.1%**	-	3.0%	-	2.9%
CPI (New Brunswick)	**3.4%**	1.7%	3.3%	1.6%	0.6%
GDP increases (New Brunswick)	**1.8%**	1.0%	1.4%	6.1%	3.5%
Capital expenditures (millions)	**$ 219**	$ 140	$ 118	$ 95	$ 68
Change in total debt (millions) (net of sinking funds, cash and investments)	**$ (104)**	$ 41	$ 23	$ 234	$ 123
% Breakdown of long-term debt:					
Canadian dollar	**68%**	68%	67%	69%	70%
US dollar	**32%**	32%	33%	31%	30%
Weighted average coupon interest rate	**7.2%**	8.1%	8.4%	8.9%	9.1%
Canadian Dollar – March 31st	**$ 0.681**	$ 0.628	$ 0.634	$ 0.688	$ 0.663

* Rate increase in 2000-2001 was for residential customers only.

CORPORATE GOVERNANCE

NB Power's Board of Directors is committed to high standards of corporate governance recognizing that effective governance furthers the achievement of the Corporation's legislated mandate and business objectives. The Corporation's governance practices are consistent with recommendations from a number of organizations, including the Toronto Stock Exchange and the Conference Board of Canada, and are being reviewed consistent with market and corporate restructuring in New Brunswick and emerging standards in other jurisdictions.

The Board of Directors consists of 10 members, all independent directors, appointed by the Provincial Government. The President and Chief Executive Officer is an *ex officio* member of the Board. Each director is required to annually sign a declaration on employment, business and personal relationships which would, or could reasonably be perceived to, interfere with their ability to act in the best interests of the Corporation. Board meetings are held regularly and the Board or its various committees will from time-to-time hold meetings without senior management present. Additionally, meetings are held periodically at field locations providing directors with the opportunity to meet employees.

The Board of Directors is responsible for ensuring the following programs are effectively directed and managed:

- strategic planning
- senior management succession
- enterprise business risk management
- accounting and financial reporting including independent audit and risk, financial control and legal compliance
- communications

Under Board direction, senior management is responsible for the operation of the Corporation and may pursue initiatives and operations consistent with approved budgets, policies and strategic direction. Business objectives and performance expectation are established by the Board which also formally reviews the performance of the President and Chief Executive Officer on an annual basis. At each regular Board meeting, senior management provides business unit or divisional reports on operations or emerging issues.

To assist members in meeting their roles, the Board has guidelines defining duties and responsibilities. An annual effectiveness review is also completed. New directors receive an orientation program providing them with operations information and a summary of strategic issues facing the Corporation.

Board Committees

The Board of Directors has established committees to provide direction and oversight on the principal risks to the Corporation:

- **Financial Restructuring Committee** – provides direction on market and financial issues during restructuring and acts as a liaison with the Provincial Government
- **Audit Committee** – assesses the integrity of financial reporting, internal control/management information systems, and audit processes. This Committee has direct communication with the Corporation's independent auditors and meets regularly with the auditors without management present. It is also responsible for monitoring business risk management plans and controls.
- **Human Resources and Corporate Governance Committee** – reviews human resources strategy, policies and programs and is responsible for developing and monitoring the governance process relative to succession planning, performance review and compensation
- **Environment Committee** – reviews adherence to the Corporation's environmental policy, monitors environmental management programs and reviews the *Environmental Performance Report*. Additionally, external auditors annually assess the completeness, valuation and disclosure of material environmental liabilities and contingencies.

Board Activities

During 2002-2003, at six regular meetings and seven special meetings, the Board of Directors reviewed and approved management's short and long-range plans, programs, performance targets and budgets. Among other issues, Board Committees were engaged in the following activities:

- **Financial Restructuring Committee** – directed the restructuring planning process on the proposed holding and operating company structures and related governance, management/staffing and financial issues. This committee, in various forms, met 11 times.

- **Audit Committee** – reviewed and approved the financial statements, monitored the enterprise risk management process, reviewed accounting changes related to Point Lepreau decommissioning, irradiated fuel management and service life, and conducted an amortization review for certain assets. This committee met five times.

- **Human Resource and Corporate Governance Committee** – ensured due diligence on health and safety issues and oversaw work on succession planning, pensions and benefits, and objectives for assessing senior management performance. This committee met nine times.

- **Environment Committee** – monitored environment management system implementation, compliance audits, facility re-licensing, and environmental aspects of capital projects. This committee met four times.

The Board of Directors, supported by the Financial Restructuring and Audit Committees, dedicated considerable attention to governance matters arising from the proposed restructuring of the Corporation. The Financial Restructuring Committee provided direction on corporate structure development and input on evolving legislation and investment solicitation for the development projects. As well, various governance models reflective of the transition from an integrated utility to a diversified structure have been examined. The Audit Committee focused on the financial aspects of restructuring. It will be examining reporting roles, terms of reference, risk management, and audit/compliance processes relative to the new corporate structure. These reviews will be undertaken consistent with best practices in light of corporate governance evolution, particularly Sarbanes-Oxley in the United States and pending legislation in Ontario.

BOARD OF DIRECTORS

Dan Skaling
Chair
Mr. Skaling has extensive business and senior management experience and over the past 20 years he has served as a senior official in both the provincial and federal governments. He is president of both Venture Communications Inc. and Kingsdale Atlantic Ltd.

Jean-Marc Violette
Vice-Chair
Mr. Violette is a farmer and wood lot manager in St. Leonard and has been active in the agriculture sector. He has served on the Farm Debt Review Board and the Farm Development Board.

Stewart MacPherson
President and CEO (Acting)
Mr. MacPherson was appointed president and ceo on January 1, 2002. He has been employed by NB Power for 35 years and served in senior management positions in customer service, business information systems and corporate planning. From 1998 to 2001, he was vice-president - corporate planning.

Lino J. Celeste
Mr. Celeste is a director on the board of Aliant Inc. and serves on the board of Manulife Financial Corporation. He also serves as chair of the Saint John Foundation.

Bernard Cyr
Mr. Cyr is owner of Cyr Holdings which operates the Chateau Moncton Hotel, develops commercial properties and operates various restaurants. Mr. Cyr is also owner and franchisor of the Dooly's group. He is a director of the National Bank of Canada and the Dr. Georges-L. Dumont Hospital Foundation.

Barbara S. Bender, CA
Ms. Bender is vice-president of Spartan Systems in Saint John and has been executive director of the N.B. Institute of Chartered Accountants. She is director of the Public Service Pension Investment Board and serves on their audit committee. Ms. Bender is also the public representative on the N.B. College of Physicians and Surgeons.

Philippe DesRosiers
A former vice-president of the National Bank, Mr. DesRosiers was responsible for retail, corporate and commercial banking in Atlantic Canada.

Roger Clinch
Mr. Clinch is a senior executive with Noranda in New Brunswick where he is responsible for communication and information services.

Leon Furlong
Mr. Furlong is past president and chief executive officer of Atlantic Blue Cross Care. He also serves on the board of directors for several companies including Blue Cross Life Insurance Company of Canada and Resurgo Inc.

Thomas Soucy
Mr. Soucy is general manager of Groupe Westco in Saint-François, N.B. He is a member of the Canadian Poultry and Egg Processing Council.

BOARD COMMITTEES

Audit Committee
Barbara S. Bender - Chair, Lino J. Celeste, Dan Skaling, Jean-Marc Violette and Thomas Soucy.

Environment Committee
Philippe DesRosiers - Chair, Roger Clinch, Jean-Marc Violette, Leon Furlong and Dan Skaling (*ex officio*).

Human Resources and Corporate Governance Committee
Roger Clinch - Chair, Dan Skaling, Lino J. Celeste, Bernard Cyr and Philippe DesRosiers.

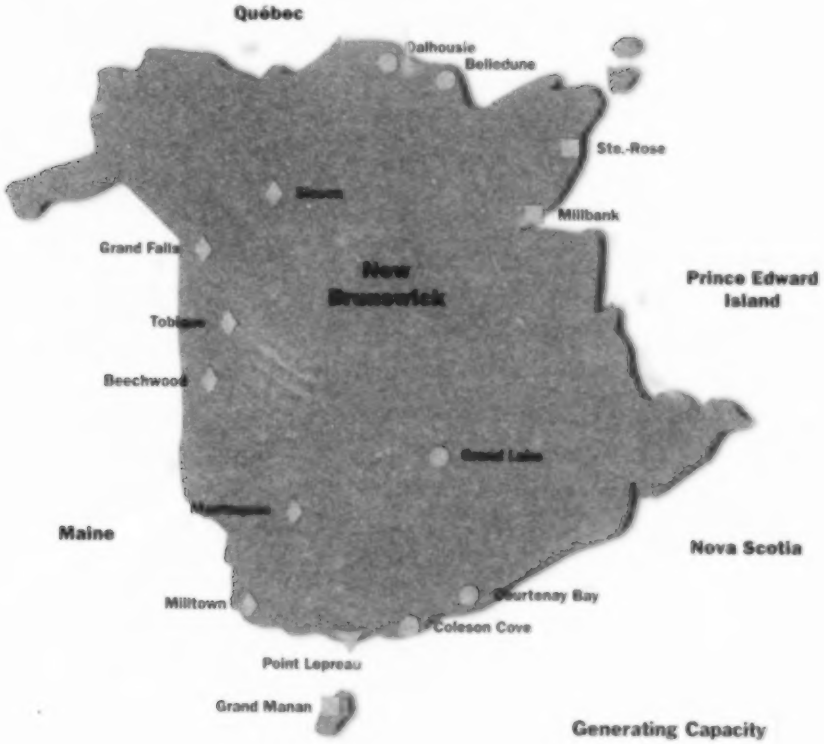
Financial Restructuring Committee
Leon Furlong - Chair, Lino J. Celeste, Philippe DesRosiers and Dan Skaling.

System Map

Generating Capacity

Thermal	
[redacted]	57 MW
[redacted]	110 MW
[redacted]	300 MW
[redacted]	998 MW
[redacted]	458 MW
Total Thermal	1,923 MW
Nuclear	
[redacted]	635 MW
Hydro	
[redacted]	4 MW
[redacted]	20 MW
[redacted]	9 MW
[redacted]	66 MW
[redacted]	113 MW
[redacted]	672 MW
Total Hydro	884 MW
Combustion Turbine	
[redacted]	28 MW
[redacted]	199 MW
[redacted]	100 MW
Total Combustion Turbine	327 MW

System Map



- Thermal Station
- Nuclear Station
- Hydro Station
- Combustion Turbine

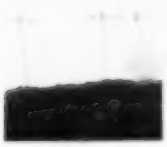
Generating Capacity

Thermal	
Grand Lake	57 MW
Courtenay Bay	110 MW
Dalhousie	300 MW
Coleson Cove	998 MW
Belledune	458 MW
Total Thermal	**1,923 MW**

Nuclear	
Point Lepreau	635 MW

Hydro	
Milltown	4 MW
Tobique	20 MW
Sisson	9 MW
Grand Falls	66 MW
Beechwood	113 MW
Mactaquac	672 MW
Total Hydro	**884 MW**

Combustion Turbine	
Grand Manan	28 MW
Millbank	199 MW
Ste.-Rose	100 MW
Total Combustion Turbine	**327 MW**



To obtain additional or French copies of this report, please contact:

New Brunswick Power Corporation
Public Affairs
P.O. Box 2000
Fredericton, New Brunswick
Canada E3B 4X1

Telephone: (506) 458-4448
Fax: (506) 458-4249

For more information on our business development projects, or to download NB Power publications like our *Environmental Performance Report*, visit ***www.nbpower.com***

This report was printed on recycled paper. Please recycle it after use.